State and Local Taxes

An Overview and Comparative Guide

1998

The Office of State Tax Commissioner

Greetings from the Commissioner

Dear Friend:

Welcome to the 1998 edition of State and Local Taxes: An Overview and Comparative Guide. This biennial publication is full of information for policy makers, students, business leaders and people who are simply interested in finding out more about North Dakota's tax laws. Everything from recent tax law changes to state tax comparisons and rankings are included here.

One thing you'll be sure to notice is that North Dakota's low to moderate tax rates and straightforward rules make our personal and business tax climates competitive with any in America.

My top goal for this department is to provide the finest customer service possible. We want to make sure North Dakota's tax law administration is as fair and burden-free as possible. Please don't hesitate to contact us if you have any questions or concerns about North Dakota taxes.

Sincerely,

Rick Clayburgh
Tax Commissioner

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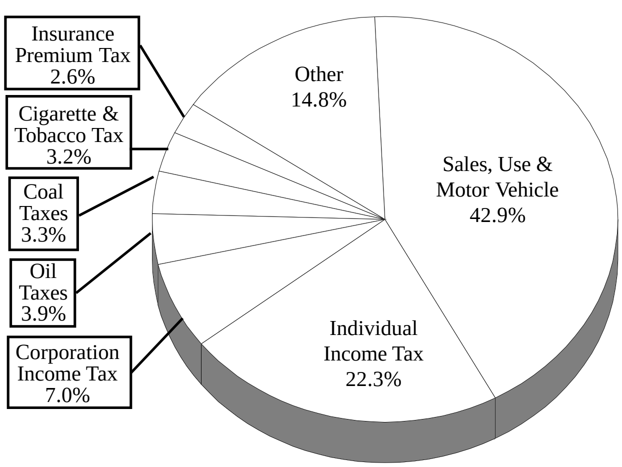
REVENUE OVERVIEW

This chapter contains historical comparisons of North Dakota revenue. General fund information is given, as well as trends in collections. You will notice that the general fund historical comparison (p. 2) includes two special funds - the State Aid Distribution Fund (S.A.D.F.) and the Capital Construction Fund. The enactment and elimination of these designated funds must be included for accurate comparisons. The S.A.D.F. was begun in fiscal year 1990 and the Capital Construction Fund was in effect during fiscal years 1992 and 1993.

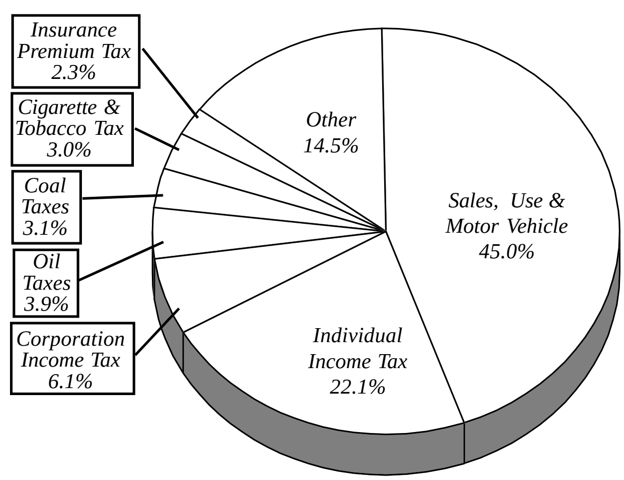
Comparison of Revenue Sources - Percent of Total

State General Fund (Including Beginning Balance)

1995-97 BIENNIUM
$1.412 Billion



(PROJECTED)
1997-99 BIENNIUM
$1.500 Billion



SOURCE: Office of Management and Budget.

State General Fund and Related Special Fund Revenue

Fiscal Years 1986-1999

	General Fund	State Aid Distribution Fund (1) (2) (After transfers to General Fund)	Capital Construction Fund (3)	Total (1)
1985-1987 BIENNIUM				
1986	478,902,021			478,902,021
1987	458,985,827			458,985,827
TOTAL	**937,887,848**			**937,887,848**
1987-1989 BIENNIUM				
1988	536,223,184			536,223,184
1989	536,210,724			536,210,724
TOTAL	**1,072,433,908**			**1,072,433,908**
1989-1991 BIENNIUM				
1990	548,969,306	27,164,358		576,133,664
1991	573,765,715	29,591,925		603,357,640
TOTAL	**1,122,735,021**	**56,756,283**		**1,179,491,304**
1991-1993 BIENNIUM				
1992	521,954,692	31,221,904	5,203,651	558,380,247
1993	587,846,737	34,606,865	5,186,504	627,640,106
TOTAL	**1,109,801,429**	**65,828,769**	**10,390,155**	**1,186,020,353**
1993-1995 BIENNIUM				
1994	619,016,330	28,119,636		647,135,966
1995	630,230,484	28,595,364		658,825,848
TOTAL	**1,249,246,814**	**56,715,000**		**1,305,961,814**
1995-1997 BIENNIUM				
1996	668,381,187	23,975,495		692,356,682
1997	712,987,790	27,524,505		740,512,295
TOTAL	**1,381,368,977**	**51,500,000**		**1,432,868,977**
1997-1999 BIENNIUM				
1998 (estimate)	*698,001,841*	*23,337,953*		*721,339,794*
1999 (estimate)	*737,094,182*	*31,197,747*		*768,291,929*
TOTAL (estimate)	***1,435,096,023***	***54,535,700***		***1,489,631,723***

(1) Beginning with fiscal year 1990, revenue sharing and personal property tax replacement have been paid directly to political subdivisions through the State Aid Distribution Fund (S.A.D.F.) rather than being appropriated from the General Fund. The formula to calculate the S.A.D.F. allocation is: 60% (1% ÷ general sales tax rate) (net collections of sales, use, and motor vehicle excise taxes). The legislature transferred the following amounts from the S.A.D.F. to the General Fund: $3,750,000 in the 1989-91 biennium, $21,980,000 in the 1993-95 biennium, $35,445,000 in the 1995-97 biennium, and $29,594,725 in 1997-99. These transfer amounts are included in the General Fund figures above.

(2) Effective January 1, 1999, the formula used to calculate the State Aid Distribution Fund allocation changed to 40% (1% general ÷ sales tax rate) (net collections of sales, use, and motor vehicle excise taxes). Revenues deposited in the state aid distribution fund are provided as a standing and continuing appropriation.

(3) For fiscal years 1992 and 1993 the following portion of sales and use tax and motor vehicle excise tax revenues was allocated to the Capital Construction Fund: 10% (1% ÷ general sales tax rate) (net collections).

SOURCE: Office of Management and Budget.

State General Fund Budget by Revenue Sources

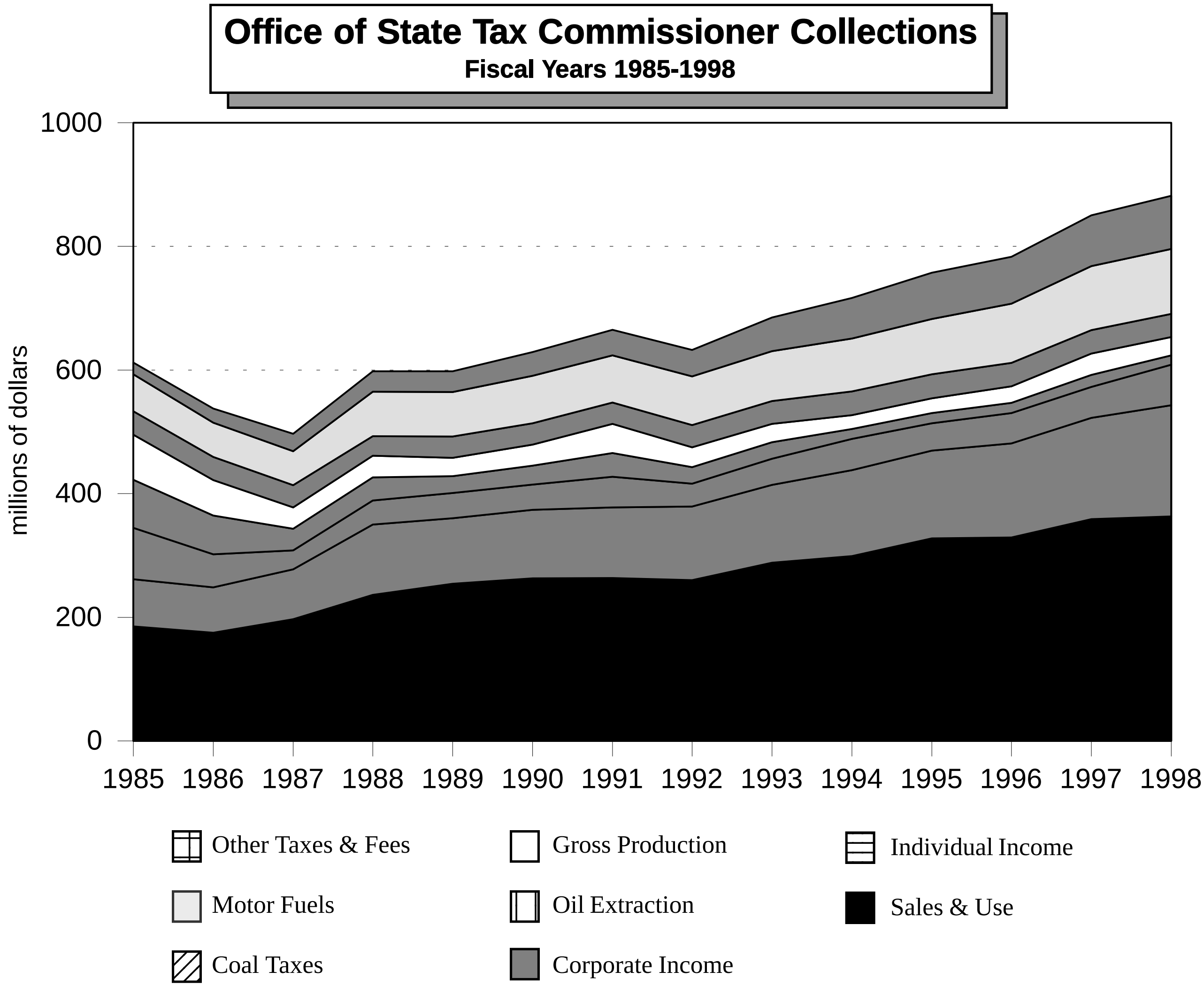
1985-87 through 1997-99 Biennia ($Millions)

REVENUE SOURCES	Biennium Revenues 1985-87	1987-89	1989-91	1991-93	1993-95	1995-97	*Projected 1997-99 Biennium*
INTEREST, MINERAL LEASES, TRANSFERS							
- Interest Income	29.956	21.192	27.848	16.134	13.603	15.555	*15.356*
- Mineral Leasing Fees	15.373	11.275	10.986	8.815	5.445	5.630	*4.800*
- Bank of ND Profits Transfer	7.000	12.000	14.000	27.218	14.100	50.215	*29.6*
- State Mill Profits Transfer	3.000	3.000	3.500	3.000		1.000	*3.000*
- Gas Tax Administration Transfer	0.818	0.836	0.959	0.989	1.025	1.072	*1.129*
- Budget Stabilization Fund Transfer [1]			5.967	23.328			
- State Aid Distribution Fund Transfer [2]			3.750		21.980	35.445	*29.595*
- Other Transfers	15.464	2.000	11.173		28.085	3.000	*5.500*
SALES, USE AND MOTOR VEHICLE [2]	372.221	490.437	465.992	472.354	551.586	605.471	*674.592*
INDIVIDUAL INCOME TAX	153.518	220.112	225.349	244.094	279.780	315.516	*331.625*
CORPORATION INCOME TAX	84.382	79.668	89.807	79.304	94.755	99.348	*90.990*
OIL TAXES	141.613	98.623	114.006	82.222	52.889	55.030	*58.740*
COAL TAXES	32.891	39.064	40.573	42.802	46.789	46.310	*46.182*
CIGARETTE AND TOBACCO TAXES	19.401	28.580	29.680	27.525	44.865	45.030	*45.490*
INSURANCE PREMIUM TAX	24.499	27.806	32.723	32.523	32.120	36.969	*33.840*
WHOLESALE LIQUOR TAX	11.420	11.128	11.551	10.151	10.370	10.339	*10.595*
BUSINESS PRIVILEGE TAX	4.872	4.045	4.468	4.502	5.489	3.854	*4.000*
GAMING TAXES	1.857	2.022	7.750	11.477	24.281	22.848	*22.625*
DEPARTMENTAL FEES & COLLECTIONS	19.602	20.647	22.653	23.363	22.083	28.737	*27.438*
TOTAL GENERAL FUND REVENUES	**937.887**	**1,072.435**	**1,122.735**	**1,109.801**	**1,249.247**	**1,381.369**	***1,435.096***
BEGINNING BALANCE [1]	150.410	18.659	40.000	105.669	19.763	31.151	*65.000*
REVENUES AND BEGINNING BALANCE	1,088.297	1,091.094	1,162.735	1,215.470	1,269.010	1,412.520	*1,500.096*
FUNDS RELATED TO PRIOR BIENNIUM CARRY-OVER AND ADJUSTMENTS	1.761	1.396	1.829	2.986	1.230	5.527	*7.234*
REVENUE AVAILABLE DURING BIENNIUM	1,090.058	1,092.490	1,164.564	1,218.457	1,270.240	1,418.047	*1,507.330*
GENERAL FUND EXPENDITURES	1,069.232	1,025.547	1,051.746	1,183.430	1,230.607	1,328.655	*1,489.241*
OBLIGATIONS CARRIED OVER TO FUTURE PERIODS	2.167	1.697	7.149	15.264	8.482	7.275	
UNOBLIGATED ENDING BALANCE	**18.659**	**65.246**	**105.669**	**19.763**	**31.151**	**82.117**[3]	***18.089***

(1) During 1987-89 and 1989-91, the amount of any General Fund balance over $40 million at the end of a biennium was deposited in the Budget Stabilization Fund. The Governor could release funds if General Fund revenue estimates fell more than 5% below the Legislative Forecast. Of the 1987-89 biennium's $65.246 million ending balance, $25.246 million was originally deposited in that fund, but $5.967 million was later released by the Governor. The 1991 Legislature allowed the entire 1989-91 balance of $105.669 to be carried over as General Fund money and allowed the Governor to release funds in future biennia if revenue estimates fall 2.5% (rather than 5%) below the Legislative Forecast.

(2) Beginning in 1989-91, a portion of sales, use and motor vehicle excise taxes has been deposited in the State Aid Distribution Fund (S.A.D.F.) and that revenue is not included in this table. As of January 1, 1999, the portion is 40% x 1% ÷ general sales tax rate. However, during three biennia, the legislature transferred funds from the S.A.D.F. to the General Fund as shown in the table. During the 1991-93 biennium, 2% of sales, use, and motor vehicle excise taxes was allocated to the Capital Construction Fund.

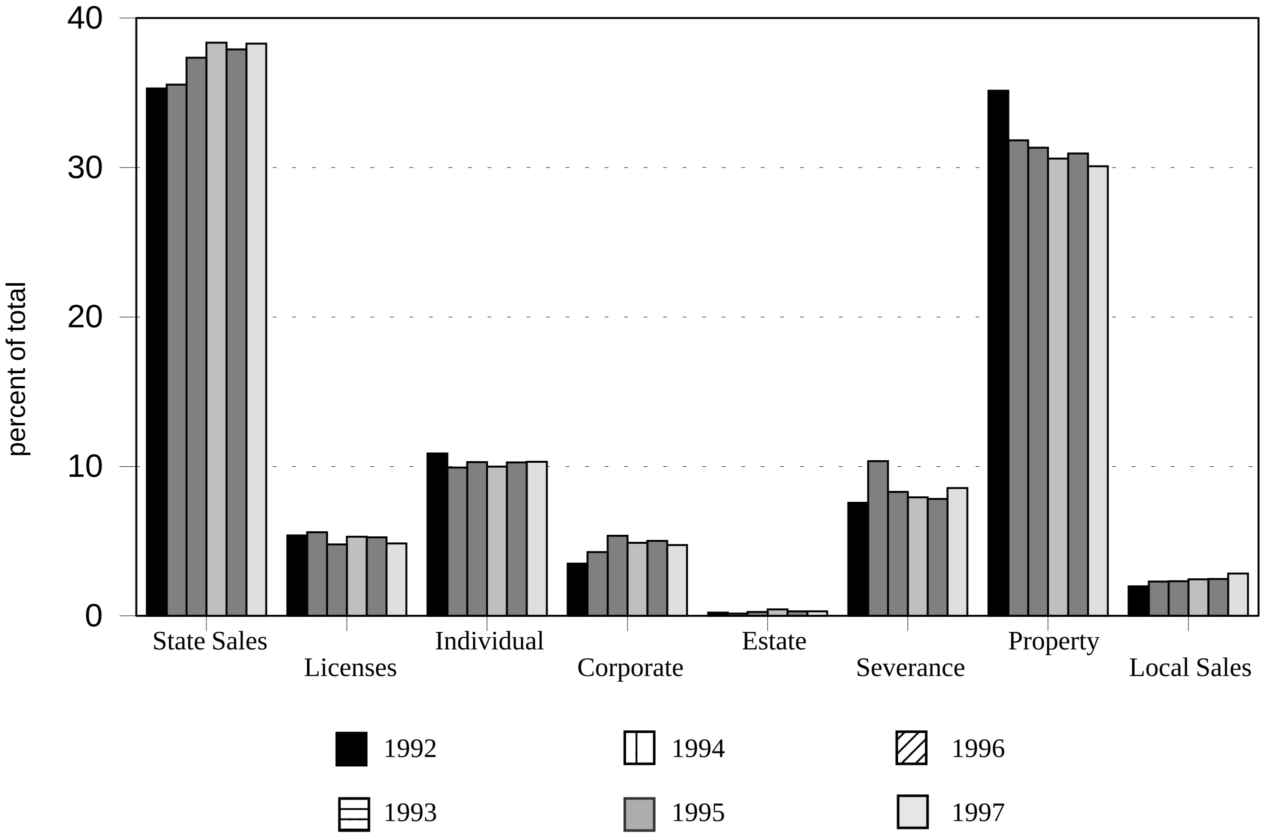
(3) House Bill 1015 provided that any amount in the general fund over $65 million be transferred to the Bank of North Dakota. Seventeen million ($17 million) was transferred to the Bank of North Dakota, leaving an ending fund balance of $65 million.



Tax Type	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Sales & Use	185.3	175.1	197.1	236.2	254.2	262.9	263.6	260.2	288.4	298.9	327.9	329.1	358.9	363.2
Ind. Income	76.2	73.4	80.2	114.0	106.1	111.1	114.3	119.0	125.6	138.9	141.9	152.1	163.7	177.9
Corp. Income	83.1	53.5	30.9	39.0	40.7	40.5	49.3	36.8	42.5	50.7	44.0	49.0	50.3	65.5
Oil Extraction	77.8	62.6	35.0	37.0	27.4	30.8	38.3	26.7	26.6	16.2	16.4	16.5	19.1	15.3
Gross Production	73.0	57.2	34.4	35.3	29.4	33.9	47.3	32.5	29.8	22.1	23.8	26.9	34.8	29.5
Coal Taxes	38.0	37.7	36.2	31.3	34.7	34.7	34.5	35.9	37.1	38.8	38.9	37.9	37.6	37.3
Motor Fuels	59.5	55.4	55.0	72.4	71.9	76.6	76.5	78.6	80.7	85.5	89.5	96.0	103.7	105.1
Other Taxes & Fees	19.3	22.6	28.1	33.0	33.8	38.6	41.1	42.9	54.4	65.6	75.2	75.6	82.4	86.0
Total Net Collections*	612.3	537.4	496.7	598.1	598.2	629.1	664.8	632.5	684.5	716.9	757.6	783.2	850.5	879.8

*Totals may not sum due to rounding
SOURCE: Office of State Tax Commissioner

Source of Total State and Local Taxes
1992-1997



Year	State Sales	Licenses	Individual	Corporate	Estate	Severance	Property	Local Sales
1992	35.30%	5.38%	10.87%	3.51%	0.22%	7.58%	35.15%	1.99%
1993	35.55%	5.61%	9.92%	4.28%	0.17%	10.35%	31.82%	2.31%
1994	37.34%	4.78%	10.29%	5.37%	0.27%	8.30%	31.32%	2.32%
1995	38.35%	5.31%	10.00%	4.89%	0.45%	7.94%	30.60%	2.46%
1996	37.90%	5.26%	10.27%	5.03%	0.30%	7.82%	30.95%	2.47%
1997	38.28%	4.85%	10.31%	4.75%	0.30%	8.56%	30.09%	2.85%

SOURCE: US Department of Commerce, Census Bureau & North Dakota Office of State Tax Commissioner.

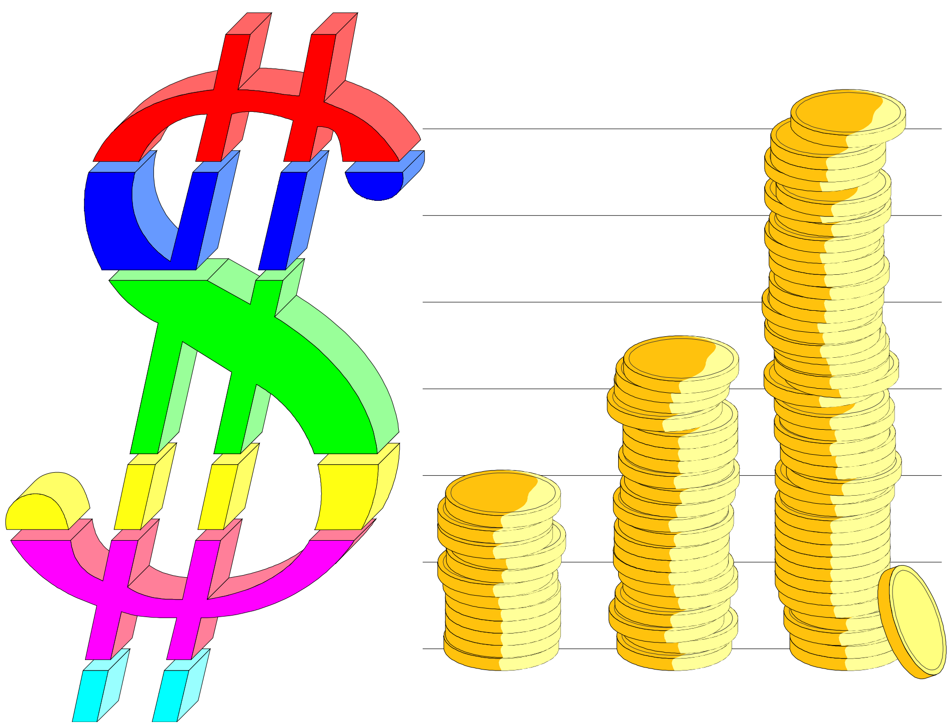
Additional Collections Resulting from Office of State Tax Commissioner Audits

For many years, the North Dakota Office of State Tax Commissioner's audit efforts have played an important role in helping to balance the state budget.

Total State General Fund spending in the 1995-97 biennium was approximately $1.347 billion, with the Office of State Tax Commissioner's budget of $14.8 million accounting for just 1% of that amount. Audit efforts of the Office of State Tax Commissioner during the biennium provided the state with 2.3% of that biennium's $1.381 billion in General Fund revenues, or 2.1 times as much as it cost to run the entire Office of State Tax Commissioner for that year.

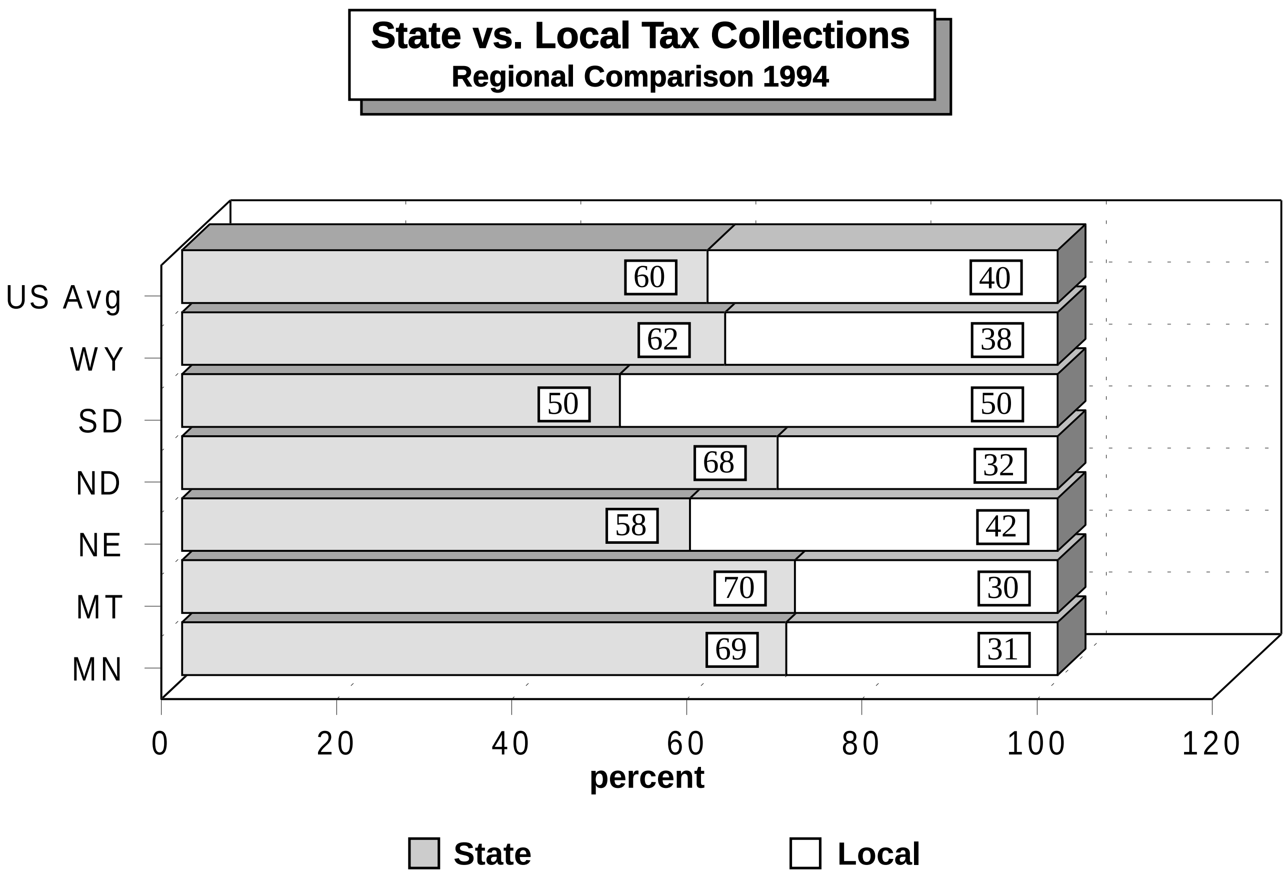
Audit Related Collections by Tax Type

Biennium	Corporation Income Tax	Individual Income Tax	Oil and Gas Taxes	Sales Tax	Total
1987-89	18,673,965	2,553,366	4,790,364	7,375,583	33,393,278
1989-91	19,769,536	2,304,051	10,014,393	7,234,653	39,322,633
1991-93	18,080,737	4,217,734	5,240,588	6,906,239	34,445,298
1993-95	23,924,315	5,015,233	2,880,977	7,089,270	38,909,795
1995-97	11,140,664	5,447,732	3,906,364	11,417,083	31,941,843
10-year Total	$ 91,589,217	$ 19,568,116	$ 26,832,686	$ 40,022,828	$ 178,012,847



STATE COMPARISONS

This chapter provides a comparison of overall tax levels between the states.* There are a variety of ways to rank and compare state tax burdens. We have used a number of different sources to give you a broad range of research. Each measurement provides insights, but also has limitations. Please contact the Office of State Tax Commissioner for more information about the various measurements.



SOURCE: Governing Magazine: State and Local Sourcebook 1998.

* *The rankings of specific types of taxes are found throughout this publication. Those comparisons are located within the chapter relating to that particular type of tax.*

Estimated Burden of Major Taxes for a Family of Four - 1996

$25,000 Gross Family Income

Tax Type	Fargo, ND	Billings, MT	Minneapolis, MN	Sioux Falls, SD	Cheyenne, WY	Omaha, NE
Income	$171	$496	$489	$0	$0	$338
Property	$981	$755	$675	$994	$400	$990
Sales	$492	$11	$430	$728	$566	$598
Auto	$192	$197	$295	$153	$220	$465
Total	$1,836	$1,459	$1,889	$1,875	$1,187	$2,391
% of Income	7.3%	5.8%	7.6%	7.5%	4.7%	9.6%
National rank	35	44	31	33	49	14

$50,000 Gross Family Income

Tax Type	Fargo, ND	Billings, MT	Minneapolis, MN	Sioux Falls, SD	Cheyenne, WY	Omaha, NE
Income	$665	$1,837	$2,158	$0	$0	$1,407
Property	$1,869	$1,437	$1,306	$1,893	$763	$1,886
Sales	$803	$31	$744	$1,051	$887	$924
Auto	$186	$194	$284	$147	$218	$500
Total	$3,524	$3,500	$4,492	$3,092	$1,868	$4,717
% of Income	7.0%	7.0%	9.0%	6.2%	3.7%	9.4%
National rank	41	42	18	45	49	14

$100,000 Gross Family Income

Tax Type	Fargo, ND	Billings, MT	Minneapolis, MN	Sioux Falls, SD	Cheyenne, WY	Omaha, NE
Income	$2,172	$5,800	$5,715	$0	$0	$4,380
Property	$3,552	$2,731	$2,481	$3,597	$1,449	$3,584
Sales	$1,718	$62	$1,627	$2,084	$1,887	$1,815
Auto	$319	$338	$709	$261	$418	$1,136
Total	$7,761	$8,931	$10,531	$5,942	$3,755	$10,915
% of Income	7.8%	8.9%	10.5%	5.9%	3.8%	10.9%
National rank	41	34	16	45	50	14

SOURCE: Tax Rates and Tax Burdens In the District of Columbia - A Nationwide Comparison 1996, Government of the District of Columbia, July 1997.

Total State Tax Collections Per Capita - Fiscal Year 1997

Rank	State	Per Capita Total State Tax Collections
1	Alaska	$2,659
2	Hawaii	$2,601
3	Connecticut	$2,491
4	Minnesota	$2,395
5	Delaware	$2,381
6	Massachusetts	$2,175
7	Michigan	$2,080
8	Washington	$1,997
9	Wisconsin	$1,970
10	New York	$1,922
11	California	$1,911
12	Nevada	$1,809
13	New Mexico	$1,793
14	New Jersey	$1,790
15	Kentucky	$1,745
16	North Carolina	$1,701
17	Maryland	$1,689
18	Rhode Island	$1,666
19	NORTH DAKOTA	$1,660
20	Iowa	$1,643
21	Kansas	$1,630
22	Maine	$1,626
23	Idaho	$1,620
24	Pennsylvania	$1,612
25	West Virginia	$1,600
26	Illinois	$1,559
27	Indiana	$1,552
28	Nebraska	$1,538
29	Vermont	$1,527
30	Oklahoma	$1,526
31	Oregon	$1,525
32	Arizona	$1,500
33	Arkansas	$1,497
34	Mississippi	$1,471
35	Ohio	$1,468
36	Utah	$1,462
37	Georgia	$1,456
38	Missouri	$1,447
39	Florida	$1,439
40	Montana	$1,433
41	South Carolina	$1,431
42	Virginia	$1,430
43	Wyoming	$1,380
44	Colorado	$1,359
45	Louisiana	$1,297
46	Alabama	$1,270
47	Tennessee	$1,233
48	Texas	$1,184
49	South Dakota	$1,041
50	New Hampshire	$780
	US Average	$1,660

SOURCE: US Department of Commerce, Census Bureau.

Total State Taxes, Except Severance Taxes, Per Capita - Fiscal Year 1997

Rank	State	Total Tax Less Severance Tax
1	Hawaii	$2,601
2	Connecticut	$2,491
3	Minnesota	$2,394
4	Delaware	$2,381
5	Massachusetts	$2,175
6	Michigan	$2,076
7	Washington	$1,982
8	Wisconsin	$1,970
9	New York	$1,922
10	California	$1,910
11	New Jersey	$1,790
12	Nevada	$1,786
13	North Carolina	$1,701
14	Kentucky	$1,697
15	Maryland	$1,689
16	New Mexico	$1,684
17	Rhode Island	$1,666
18	Iowa	$1,643
19	Maine	$1,626
20	Idaho	$1,617
21	Pennsylvania	$1,612
22	Kansas	$1,596
23	Illinois	$1,559
24	Indiana	$1,552
25	Nebraska	$1,537
26	Vermont	$1,527
27	Oregon	$1,509
28	West Virginia	$1,503
29	Arizona	$1,500
30	Arkansas	$1,492
31	Ohio	$1,467
32	Mississippi	$1,459
33	Georgia	$1,456
34	Utah	$1,450
35	NORTH DAKOTA	$1,449
36	Missouri	$1,447
37	Florida	$1,434
38	South Carolina	$1,431
39	Virginia	$1,430
40	Oklahoma	$1,404
41	Montana	$1,369
42	Colorado	$1,351
43	Alabama	$1,251
44	Tennessee	$1,233
45	Louisiana	$1,203
46	Texas	$1,125
47	South Dakota	$1,032
48	Wyoming	$936
49	Alaska	$921
50	New Hampshire	$780
	US Average	$1,643

SOURCE: US Department of Commerce, Census Bureau.

Regional Comparison of State and Local Taxes As a Percentage of Income

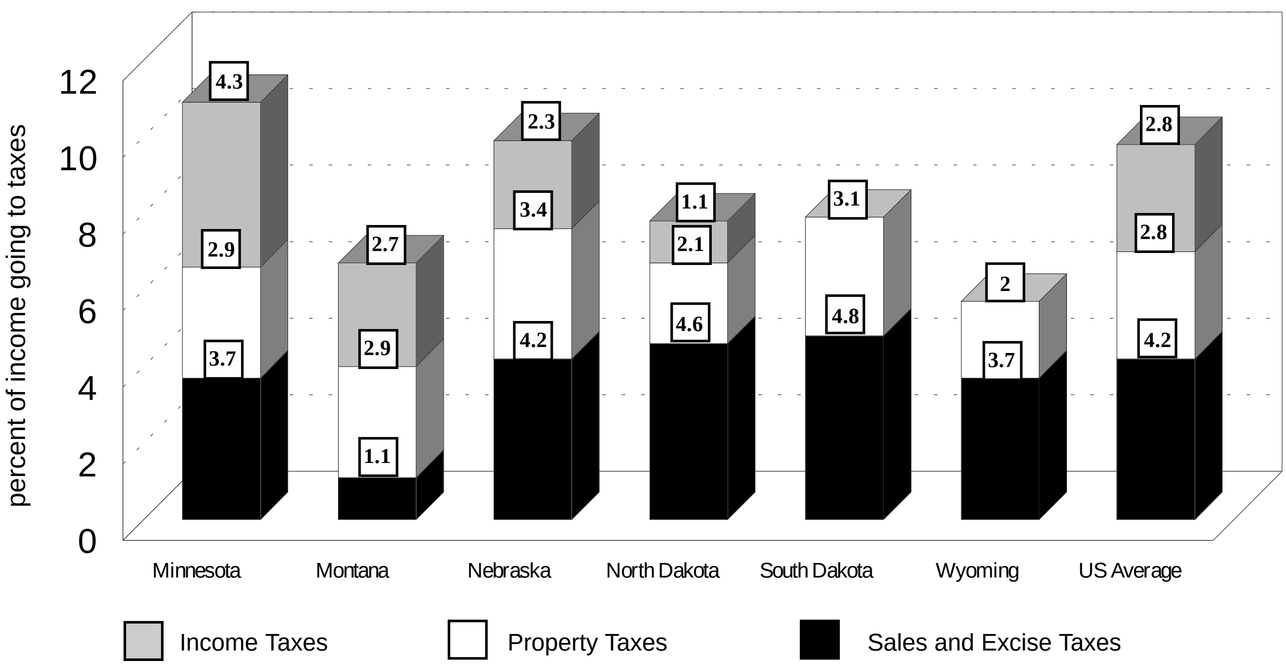
1995 Total state and local taxes on residents as shares of family income for nonelderly married couples, after federal offset

Family Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%	Lowest/ Top
Minnesota	10.9%	10.9%	10.4%	9.7%	8.7%	8.0%	7.8%	139%
Montana	7.6%	6.5%	6.6%	6.9%	6.6%	5.9%	5.5%	138%
Nebraska	10.9%	10.1%	9.7%	9.1%	8.3%	7.2%	6.4%	170%
North Dakota	10.6%	8.7%	7.8%	7.3%	6.5%	5.7%	5.2%	204%
South Dakota	11.7%	8.9%	7.8%	6.6%	5.7%	4.0%	2.6%	450%
Wyoming	8.2%	6.5%	5.7%	4.7%	3.8%	3.0%	2.7%	304%
US Average	12.4%	10.3%	9.4%	8.6%	7.7%	6.5%	5.8%	214%

SOURCE: Citizens for Tax Justice and The Institute on Taxation & Economic Policy, Who Pays?, June 1996.

North Dakota & Region - State & Local Taxes As A Percentage Of Income

Shares of Family Income for Non-elderly Married Couples 1995*



* For the middle twentieth percentile family income group within each state.

SOURCE: Citizens for Tax Justice and The Institute on Taxation & Economic Policy, Who Pays?, June 1996.

Tax Freedom Day 1998, by State

State	Tax Freedom Day	Rank	Average number of days spent working to pay: Total Taxes	Federal Taxes	State/ Local Taxes
Connecticut	May 26	1	145	99	46
Wisconsin	May 17	2	136	87	49
Minnesota	May 16	3	135	88	47
New York	May 16	4	135	86	49
New Jersey	May 16	5	135	94	41
Massachusetts	May 14	6	133	92	41
Illinois	May 13	7	132	92	40
Washington	May 13	8	132	90	42
Michigan	May 13	9	132	92	40
Nevada	May 13	10	132	91	41
Utah	May 12	11	131	85	46
Rhode Island	May 12	12	131	88	43
Maine	May 11	13	130	82	48
California	May 11	14	130	87	43
Kansas	May 10	15	129	87	42
Florida	May 9	16	128	90	38
Hawaii	May 9	17	128	77	51
Georgia	May 9	18	128	87	41
Maryland	May 9	19	128	88	40
New Mexico	May 9	20	128	83	45
South Carolina	May 9	21	128	86	42
Ohio	May 8	22	127	86	41
Nebraska	May 8	23	127	86	41
Idaho	May 8	24	127	85	42
Missouri	May 8	25	127	85	42
Colorado	May 8	26	127	88	39
Vermont	May 8	27	127	84	43
Arizona	May 8	28	127	87	40
Indiana	May 8	29	127	87	40
Oregon	May 7	30	126	85	41
Mississippi	May 7	31	126	81	45
Pennsylvania	May 7	32	126	87	39
Kentucky	May 7	33	126	83	43
Texas	May 5	34	124	86	38
Virginia	May 5	35	124	87	37
Arkansas	May 5	36	124	82	42
Delaware	May 5	37	124	84	40
North Carolina	May 5	38	124	85	39
Iowa	May 5	39	122	81	41
Montana	May 3	40	122	83	39
Wyoming	May 2	41	121	93	28
West Virginia	May 1	42	120	81	39
Alabama	May 1	43	120	86	34
South Dakota	May 1	44	120	82	38
Tennessee	April 30	45	119	88	31
Louisiana	April 30	46	119	82	37
NORTH DAKOTA	April 30	47	119	80	39
Oklahoma	April 28	48	117	79	38
Alaska	April 26	49	115	93	22
New Hampshire	April 25	50	114	91	23
District of Columbia	May 30	--	149	83	66
US Average	May 10	--	129	88	41

SOURCE: Tax Foundation

Taxes Per Capita and as a Percent of Income, 1998, by State

	Per Capita Total Taxes	Per Capita Federal Taxes	Per Capita State/Local Taxes	Per Capita Income	Total Taxes as % of Income	Federal Taxes as % of Income	State/Local Taxes as % of Income	Total Taxes as % of Income Rank	State & Local Taxes as % of Income Rank
United States	$9,881	$6,690	$3,191	$27,876	35.4%	24.0%	11.4%	-	-
Alabama	7,468	5,322	2,146	22,670	32.9	23.5	9.5	43	46
Alaska	8,120	6,563	1,557	25,582	31.7	25.7	6.1	49	50
Arizona	8,666	5,928	2,739	24,870	34.8	23.8	11.0	28	31
Arkansas	7,352	4,842	2,510	21,586	34.1	22.4	11.6	36	17
California	10,439	6,942	3,497	29,160	35.8	23.8	12.0	14	10
Colorado	10,216	7,052	3,164	29,272	34.9	24.1	10.8	26	35
Connecticut	15,525	10,518	5,007	38,964	39.8	27.0	12.9	1	6
Delaware	10,837	7,303	3,534	31,819	34.1	23.0	11.1	37	29
Florida	9,768	6,824	2,944	27,655	35.3	24.7	10.6	16	41
Georgia	9,313	6,277	3,036	26,398	35.3	23.8	11.5	18	20
Hawaii	9,510	5,687	3,823	26,941	35.3	21.1	14.2	17	1
Idaho	7,581	5,046	2,535	21,663	35.0	23.3	11.7	24	15
Illinois	11,229	7,838	3,391	30,839	36.4	25.4	11.0	7	32
Indiana	8,864	6,055	2,809	25,444	34.8	23.8	11.0	29	30
Iowa	8,700	5,776	2,924	25,850	33.7	22.5	11.3	39	25
Kansas	9,344	6,286	3,058	26,394	35.4	23.8	11.6	15	18
Kentucky	7,832	5,129	2,703	22,643	34.6	22.7	11.9	33	11
Louisiana	7,241	4,984	2,257	22,128	32.7	22.5	9.8	46	45
Maine	8,519	5,345	3,174	23,792	35.8	22.5	13.3	13	4
Maryland	10,895	7,454	3,441	30,954	35.2	24.1	11.1	19	28
Massachusetts	12,654	8,728	3,926	34,469	36.7	25.3	11.4	6	23
Michigan	10,361	7,221	3,139	28,565	36.3	25.3	11.0	9	33
Minnesota	11,081	7,168	3,913	29,799	37.2	24.1	13.1	3	5
Mississippi	6,954	4,481	2,474	20,047	34.7	22.3	12.3	31	9
Missouri	9,207	6,136	3,072	26,334	35.0	23.3	11.7	25	16
Montana	7,098	4,827	2,271	21,215	33.5	22.8	10.7	40	38
Nebraska	9,343	6,286	3,057	26,688	35.0	23.6	11.5	23	21
Nevada	10,745	7,402	3,343	29,660	36.2	25.0	11.3	10	26
New Hampshire	9,421	7,462	1,959	30,034	31.4	24.8	6.5	50	49
New Jersey	13,165	9,112	4,053	35,559	37.0	25.6	11.4	5	22
New Mexico	7,340	4,755	2,585	20,885	35.1	22.8	12.4	20	8
New York	12,439	7,876	4,564	33,564	37.1	23.5	13.6	4	2
North Carolina	8,669	5,924	2,745	25,480	34.0	23.3	10.8	38	36
NORTH DAKOTA	7,824	5,269	2,554	23,933	32.7	22.0	10.7	47	40
Ohio	9,354	6,322	3,033	26,684	35.1	23.7	11.4	22	24
Oklahoma	7,152	4,787	2,365	22,153	32.3	21.6	10.7	48	39
Oregon	9,300	6,292	3,008	26,750	34.8	23.5	11.2	30	27
Pennsylvania	9,782	6,750	3,013	26,194	35.2	23.7	11.5	32	37
Rhode Island	9,921	6,625	3,296	27,639	35.9	24.0	11.9	12	12
South Carolina	7,937	5,333	2,604	22,624	35.1	23.6	11.5	21	19
South Dakota	7,844	5,312	2,532	23,838	32.9	22.3	10.6	44	42
Tennessee	8,048	5,930	2,118	24,591	32.7	24.1	8.6	45	47
Texas	8,741	6,051	2,690	25,563	34.2	23.7	10.5	34	43
Utah	8,122	5,266	2,856	22,496	36.1	23.4	12.7	11	7
Vermont	8,850	5,826	3,023	25.370	34.9	23.0	11.9	27	13
Virginia	9,650	6,727	2,923	28,326	34.1	23.7	10.3	35	44
Washington	10,511	7,110	3,401	28,908	36.4	24.6	11.8	8	14
West Virginia	6,691	4,507	2,184	20,204	33.1	22.3	10.8	42	34
Wisconsin	9,897	6,313	3,584	26,499	37.3	23.8	13.5	2	3
Wyoming	7,683	5,859	1,823	23,118	33.2	25.3	7.9	41	48
Dist. of Columbia	15,543	8,689	6,854	37,876	41.0	22.9	18.1	--	--

Note: Totals may not add up to rounding.

SOURCE: Tax Foundation

State Taxes by Source - Fiscal Year 1996

	General Sales & Use	Individual Income	Corporate Income	Motor Fuels	Licenses	All Other
Alabama	27.4%	30.0%	4.1%	8.8%	8.0%	21.6%
Alaska	0.0	0.0	21.5	2.5	5.2	70.8
Arizona	42.4	23.3	7.0	7.8	6.1	13.4
Arkansas	37.1	31.3	6.2	8.9	5.8	10.7
California	32.9	36.0	10.1	4.7	5.3	11.1
Colorado	27.4	47.2	4.3	9.2	5.3	6.6
Connecticut	31.2	33.4	8.2	6.4	4.2	16.6
Delaware	0.0	37.4	9.8	5.6	31.6	15.6
District of Columbia	18.8	27.8	6.2	1.2	2.0	44.0
Florida	58.0	0.0	5.1	6.8	6.7	23.4
Georgia	37.2	41.2	7.0	5.3	4.1	5.2
Hawaii	46.6	32.6	2.1	2.5	2.8	13.3
Idaho	32.3	35.3	8.2	8.6	5.2	10.4
Illinois	29.3	33.5	9.4	6.9	5.5	15.5
Indiana	34.0	41.2	10.6	7.3	2.4	4.5
Iowa	32.8	35.8	4.6	8.3	9.3	9.3
Kansas	35.2	34.8	6.4	7.4	5.1	11.2
Kentucky	27.5	32.0	4.4	6.2	5.9	24.1
Louisiana	33.1	23.6	6.7	10.2	8.5	17.9
Maine	34.7	37.4	3.7	8.2	6.0	9.9
Maryland	24.5	42.7	4.0	7.4	4.4	17.0
Massachusetts	21.0	53.9	9.9	4.8	3.2	7.3
Michigan	34.4	30.7	11.4	4.1	5.1	14.2
Minnesota	28.8	41.1	7.0	5.2	6.3	11.5
Mississippi	47.4	19.2	5.2	9.2	6.5	12.5
Missouri	33.6	39.7	5.1	8.0	8.2	5.4
Montana	0.0	30.5	6.0	14.0	11.8	37.7
Nebraska	34.4	35.5	5.4	11.4	6.7	6.8
Nevada	54.4	0.0	0.0	6.8	10.8	28.0
New Hampshire	0.0	6.2	21.5	12.8	12.9	46.6
New Jersey	30.0	32.9	8.0	3.2	5.2	20.6
New Mexico	41.9	21.0	5.3	7.4	5.4	19.0
New York	20.4	50.9	8.0	1.5	2.9	16.3
North Carolina	25.0	41.5	7.9	8.0	6.2	11.4
NORTH DAKOTA	28.6	15.4	7.5	9.7	7.9	30.9
Ohio	31.9	37.7	5.2	7.7	7.8	9.8
Oklahoma	26.2	32.8	3.5	7.4	14.3	15.8
Oregon	0.0	63.9	6.8	8.6	13.2	7.5
Pennsylvania	30.7	28.8	9.1	4.1	9.7	17.7
Rhode Island	30.0	37.5	5.6	8.1	5.2	13.6
South Carolina	37.5	35.5	4.9	6.3	7.6	8.2
South Dakota	52.5	0.0	5.2	12.3	12.4	17.6
Tennessee	57.2	1.9	8.6	11.6	9.9	10.9
Texas	50.9	0.0	0.0	10.9	14.3	23.9
Utah	40.2	39.1	6.1	7.1	3.4	4.2
Vermont	21.7	33.4	5.3	7.0	8.5	24.1
Virginia	22.4	48.3	4.1	7.9	4.7	12.5
Washington	58.4	0.0	0.0	6.4	4.7	30.6
West Virginia	28.8	27.1	8.5	7.4	5.6	22.6
Wisconsin	28.2	43.2	6.0	7.0	6.9	8.7
Wyoming	33.7	0.0	0.0	6.9	11.9	47.5
All States (a)	33.3%	32.1%	7.0%	6.2%	6.4%	14.9%

(a) Does not include the District of Columbia.

SOURCE: Tax Foundation, based on data from the Department of Commerce, Bureau of the Census.

INDIVIDUAL INCOME TAXES

CURRENT LAW

INDIVIDUAL INCOME TAX

Filing Requirements

Every resident of North Dakota who has a federal income tax filing requirement is required to file a North Dakota income tax return. This requirement applies even if all or part of the resident's income is derived from sources outside of North Dakota.

A nonresident who has a federal income tax filing requirement and derives income from North Dakota (except income from interest, dividends, pensions and annuities) is required to file a North Dakota income tax return. However, Montana and Minnesota residents who earn wages in North Dakota are not required to file North Dakota individual income tax returns if they meet the requirements of reciprocity.

An individual income tax return is due April 15.

Choice of Methods

Two filing methods are available to all individuals. The two methods are the simplified short form (Form 37-S) and the traditional long form (Form 37).

The same filing status (i.e., single, married filing jointly, head of household, etc.) used for federal purposes must be used when filing for state purposes. However, if one spouse is a legal resident of North Dakota and the other spouse is not, then separate state returns must be filed. Whenever married individuals must file separate state returns, each spouse has the option of using either the short form or the long form.

Short Form

Approximately 95% of all individuals who file a North Dakota income tax return use the simplified short form because it yields a lower tax liability than the long form. Individuals who use the short form determine their income tax liability by multiplying their federal income tax liability (before federal credits) by 14%.

Adjustments are available on the short form for the same income from U.S. obligations allowed on the long form, certain U.S. Railroad Retirement Board payments, and income earned by an American Indian while living and working on the Indian reservation where he or she is an enrolled member, and an amount equal to the North Dakota income or loss passed through to a shareholder of a Subchapter S corporation that is subject to the North Dakota financial institution tax.

A credit may be taken for taxes paid to another state, and for qualified expenses paid to care for a qualified family member at home.

A taxpayer may choose to contribute to the nongame wildlife fund or the centennial tree trust fund (or both) on the return. A contribution will either increase a balance due or reduce an overpayment on the return.

Long Form

Taxpayers who use the long form determine their income tax liability in a more traditional manner in which a North Dakota taxable income amount is computed and a progressive set of tax rates are applied to it. In addition, taxpayers who use the long form may qualify for deductions, exemptions, and credits not available on the short form.

Taxable Income. The starting point for calculation of income tax on the long form is federal taxable income. To compute North Dakota taxable income, federal taxable income is adjusted as follows:

- Increased by interest income earned on state and local government obligations other than North Dakota obligations.

- Increased by state and local income taxes deducted on the federal return.

- Increased by a lump sum distribution from a qualified retirement plan that is not included in federal taxable income because of an election to use the 5- or 10-year averaging method under federal tax law.

- Increased by an amount equal to the North Dakota loss that is passed through to a shareholder of a Subchapter S corporation subject to the North Dakota financial institution tax.
- Decreased by state and local income tax refunds reported on the federal return.
- Decreased by federal income taxes paid.
- Decreased by $300 if the filing status is married filing jointly, head of household, or surviving spouse.
- Decreased by $1,000 for each adopted child under the age of 21, but only in the year the adoption becomes final.
- Decreased by up to $1,000 of the costs of adopting a child under the age of 21 who is mentally retarded or is blind or disabled as determined under the Social Security Act, but only in the year the adoption becomes final.
- Decreased by $750 for each adopted child under the age of 21 who is mentally retarded or is blind or disabled as determined under the Social Security Act.
- Decreased by medical expenses not allowed on the federal return due to the 7.5% limitation.
- Decreased by payments included in federal taxable income from the U.S. Railroad Retirement Board.
- Decreased, within certain limitations, by the amount of any military retirement benefits; federal retirement benefits; and North Dakota firefighter, police and highway patrol retirement benefits.
- Decreased by interest on U.S. obligations, including the portion of dividends from a regulated investment company (mutual fund) that is attributable to investments in U.S. obligations.
- Decreased, within certain limitations, by dividends from a corporation which paid North Dakota income tax.
- Decreased by up to $300 of interest ($600 if joint return) from North Dakota financial institutions.
- Decreased by part of the gain on sale or exchange of stock of a corporation that relocates significant operations to North Dakota and generates new wealth in the state.
- Decreased, within certain limits, by investment in a North Dakota venture capital corporation.
- Decreased by net income earned from a new or expansion project engaged in primary sector business or tourism. The business must apply for this exemption which may be granted for up to five years. For more information see page 29.
- Decreased by benefits allowed under the Beginning Businessperson Program to a businessperson who sells or rents a business to a beginning businessperson.
- Decreased by benefits allowed under the Beginning Farmer Program to a landowner who sells or rents land to a beginning farmer.
- Income earned by an American Indian while living and working on the Indian reservation where he or she is an enrolled member.
- Decreased by the amount of any gain recognized on property subject to eminent domain sale or transfer.
- Decreased by an amount equal to the North Dakota income that is passed through to a shareholder of a Subchapter S corporation that is subject to the North Dakota financial institution tax.

Tax Rates. The following rates are applied to North Dakota taxable income on the long form:

TAXABLE INCOME:	
Up to $3,000	2.67%
$ 3,000 to $ 5,000	4.00%
$ 5,000 to $ 8,000	5.33%
$ 8,000 to $ 15,000	6.67%
$ 15,000 to $ 25,000	8.00%
$ 25,000 to $ 35,000	9.33%
$ 35,000 to $ 50,000	10.67%
Over $50,000	12.00%

Credits. Credits are available on the long form for the following:

- Income taxes paid to another state by a North Dakota resident.
- Contributions to nonprofit private high schools and nonprofit private colleges in the state.
- Payment of premiums for long-term care insurance.

- Installation of geothermal, solar or wind energy systems in buildings or on property owned by the taxpayer in North Dakota.

- Installation of alternative fuel equipment on a North Dakota licensed vehicle. (Ineffective after December 31, 1997).

- Investment in a North Dakota venture capital corporation.

- Investment in the Small Business Investment Company, a limited partnership established by the State of North Dakota.

- Investment in a certified nonprofit development corporation.

- "Seed capital investment" in a new or expanding business certified by the Director of Economic Development and Finance.

- North Dakota wages paid to a developmentally disabled or chronically mentally ill employee.

- Qualified expenses paid to care for a qualified family member at home.

Optional Contributions. A taxpayer may make a contribution to the nongame wildlife fund or the centennial tree fund (or both) on the return. A contribution will either increase a balance due or reduce an overpayment on the return.

Payment of Estimated Tax

Individuals are required to pay estimated state income tax if all four of the following conditions apply:

1. The individual is required to pay estimated federal income tax; AND
2. The individual's previous year's net tax liability was $200 or greater; AND
3. The individual expects to owe, after subtracting withholding, at least $200; AND
4. The individual expects withholding to be less than the smaller of:
   a. 90% of current year's net tax liability or
   b. 100% of previous year's net tax liability. [This does not apply if the individual moves into North Dakota during the year.]

Withholding

An employer is required to withhold North Dakota income tax from the wages of an employee if federal income tax is required to be withheld from such wages. However, wages paid by farmers and ranchers are exempt from North Dakota withholding requirements.

North Dakota withholding is computed by multiplying federal income tax withholding by 14%.

Employers must register with the North Dakota Tax Department. For the employer's convenience, forms to register for income tax withholding, sales and use tax permit, unemployment insurance and workers compensation are part of a consolidated registration package.

New Jobs Training Program: Under the New Jobs Training Program, a new or expanding primary sector business may use income tax withheld from new employees to pay for the cost of training the employees. Application for the program is made through Job Service North Dakota.

Distribution of Revenue

All revenue from the individual income tax is deposited in the State General Fund.

Reference: North Dakota Century Code chs. 57-38, 57-38.1, 52-02.1, and 57-59.

FIDUCIARY INCOME TAX (Estates and Trusts)

A fiduciary for a resident trust or estate, or a fiduciary for a nonresident trust or estate which derives income from North Dakota sources must file a state fiduciary income tax return if required to file a federal fiduciary income tax return.

The fiduciary income tax is similar to the individual income tax (see pages 18 and 19).

A fiduciary income tax return is due on or before the fifteenth day of the fourth month following the close of the tax year.

Reference: North Dakota Century Code chs. 57-38, 57-38.1, and 57-59.

HISTORICAL OVERVIEW

Significant Changes in Law

Before 1977. The legislature approved the state's first income tax law in 1919. Earned income and unearned income were taxed at different rates. In 1923, the state's income tax was completely revised and patterned after federal income tax law at the time. Since then, income definitions, rates and requirements have been modified by the legislature and ballot measures. Highlights of changes since 1977 are described below.

1977 Session. The legislature enacted a tax credit for the installation of a solar or wind energy device. Residents were permitted to make payment of estimated state income tax.

1978 Initiated Measure. The measure passed by the voters in the 1978 General Election decreased individual income tax rates. The rates, effective January 1, 1978, were as follows:

TAXABLE INCOME:	
Up to $3,000	Computed at 1.0%
$ 3,000 to $ 5,000	2.0%
$ 5,000 to $ 8,000	3.0%
$ 8,000 to $ 12,000	4.0%
$ 12,000 to $ 30,000	5.0%
Over $ 30,000	7.5%

1979 Session. The legislature enacted a deduction for landowners who sell or rent their land to beginning farmers, a deduction for gains from property subject to eminent domain sale or transfer, and a credit for contributions to nonprofit private high schools. Legislators repealed the 1% business privilege tax on business income paid by individuals, estates, trusts, partnerships and corporations. The repeal was effective for tax years beginning on or after January 1, 1981.

1980 Initiated Measure. An energy cost relief credit of up to $100 was included in the oil extraction tax initiated measure passed by the voters in the 1980 General Election.

1981 Session. The legislature adopted the simplified short form and established the individual income tax at a rate of 7½% of federal tax liability. For long form filers, a deduction was created for businesspeople who sell all or part of their business to a beginning businessperson; a deduction was created for interest earned from North Dakota financial institutions; and a tax credit was added for the installation of a geothermal energy device.

1983 Session. The legislature repealed the energy cost relief credit. The legislature increased the short form rate from 7½% to 10½% of federal tax liability and increased long form rates by a corresponding amount. Long form rates were as follows:

TAXABLE INCOME:	
Up to $3,000	Computed at 2.0%
$ 3,000 to $ 5,000	3.0%
$ 5,000 to $ 8,000	4.0%
$ 8,000 to $ 15,000	5.0%
$ 15,000 to $ 25,000	6.0%
$ 25,000 to $ 35,000	7.0%
$ 35,000 to $ 50,000	8.0%
Over $ 50,000	9.0%

1985 Session. For long form filers, the legislature created a tax credit for an investment in a North Dakota venture capital corporation and provided a one-time deduction for each adopted child under the age of 21.

1986 Special Session. Withholding requirements were changed to apply to all employees subject to federal income tax withholding. Previously, the law applied only to nonresident employee wages. Also, requirements for declaration of estimated tax were expanded. The legislature increased the short form rate from 10½% to 14% of federal tax liability and increased long form rates by a corresponding amount. Long form rates were as follows:

TAXABLE INCOME:	
Up to $3,000	Computed at 2.67%
$ 3,000 to $ 5,000	4.00%
$ 5,000 to $ 8,000	5.33%
$ 8,000 to $ 15,000	6.67%
$ 15,000 to $ 25,000	8.00%
$ 25,000 to $ 35,000	9.33%
$ 35,000 to $ 50,000	10.67%
Over $ 50,000	12.00%

1987 Referred Measure. On March 18, 1987, state voters upheld the 1986 Special Session changes increasing the tax rates and expanding requirements for withholding and declarations of estimated tax.

1987 Session. The legislature created a 10% surtax on state income tax liability for tax year 1987 only. The legislature also required, beginning with tax year 1988, that income tax returns include a provision for optional contributions to the nongame wildlife fund. For long form filers, tax credits were added for investment in the Myron G. Nelson Fund, Inc., and for North Dakota wages paid to a developmentally disabled or chronically mentally ill employee.

1989 Session. The legislature added deductions for all federal retirement benefits not previously eligible, for highway patrol retirement benefits, and for investment in a venture capital corporation or the Myron G. Nelson Fund, Inc. A credit was created for an investment in a nonprofit development corporation. The legislature also provided for optional contributions to the centennial tree program trust fund. Taxpayers must use the same filing status and the same standard or itemized deductions as used for federal purposes. North Dakota income tax law was perpetually federalized for tax years beginning after December 31, 1988. The legislature increased the short form rate from 14% to 17% of federal tax liability and long form rates by a corresponding amount. Long form rates ranged from 3.24% on taxable income under $3,000 to 14.57% on taxable income over $50,000.

1989 Referral Election. The tax rate increases passed by the 1989 Legislature were rejected in a December Special Election. In effect, rates remained as passed by the 1986 Special Session.

1991 Session. The legislature created a deduction for distributions from mutual funds that only hold U.S. government securities. Wages paid by farmers and ranchers were exempted from withholding requirements. The legislature approved administrative changes recommended by a special Taxpayer Bill of Rights project involving the private sector and the North Dakota Tax Department. The income tax exemption for new or expanding businesses was decoupled from the property tax exemption and was limited to value-adding primary sector and tourism businesses.

1993 Session. Credits were added to the long form for "seed capital investment" in a new or expanding business, for long term care insurance premiums, and for alternative fuel equipment installed on motor vehicles. The New Jobs Training Program was created to allow new or expanding businesses to use income tax withheld from new employees to pay for the employees' training. Also, a limited liability company form of business entity was legalized.

1994 Special Session. The project size limitations were removed as qualifications for the new or expanding business tax exemption. The change allowed large projects to qualify.

1995 Session. A new deduction was added to the long form for part of the gain on sale or exchange of stock of a corporation that relocates significant operations to North Dakota. The legislature decreased the number of new jobs that a business must create to qualify for the New Jobs Training Program. The Myron G. Nelson Fund, Inc. was changed to the Small Business Investment Company, a state established limited partnership, and the tax credit provisions did not change. A nonresident individual's income from gambling in North Dakota was specifically made taxable income.

1997 Session. The legislature authorized a new family care tax credit on Form 37-S (Short form) and Form 37 (Long form). The credit is for qualified expenses for the care of a qualifying family member. The maximum credit is $2,000 per qualifying family member, not to exceed $4,000 for two or more qualifying family members (If the taxpayer is married and files a separate return, the maximum credit is $1,000 and $2,000, respectively). The long-term care insurance credit (Long form only) was changed to allow the credit for *each insured individual* rather than per policy. A new provision allows an individual who files a new claim for unemployment compensation benefits to elect to have federal and state income tax withheld from the benefits.

Individual Income Tax Collections

Fiscal Year	Net Collections
1989	106,090,925
1990	111,089,279
1991	114,260,038
1992	119,034,850
1993	125,059,419
1994	137,879,059
1995	141,923,858
1996	152,087,864
1997	163,732,247
1998	177,904,251
1999 est.	180,785,000

SOURCE: Office of State Tax Commissioner and estimates prepared with Office of Management and Budget.

Per Capita Comparison of Individual Income Tax Collections *

Fiscal Year 1997

State	Rank	Per Capita
Massachusetts	1	$1,174
Minnesota	2	$1,020
Oregon	3	1,009
New York	4	$968
Delaware	5	$906
Wisconsin	6	$878
Connecticut	7	$859
Hawaii	8	$823
Maryland	9	$740
North Carolina	10	$735
California	11	$721
Virginia	12	$702
Colorado	13	$658
Michigan	14	$655
Rhode Island	15	$648
Indiana	16	$640
Georgia	17	$633
Maine	18	$621
Iowa	19	$603
New Jersey	20	$599
Idaho	21	$588
Kansas	22	$583
Nebraska	23	$566
Kentucky	24	$564
Missouri	25	$562
Ohio	26	$549
Vermont	27	$549
Utah	28	$548
Illinois	29	$528
South Carolina	30	$514
Oklahoma	31	$512
Montana	32	$494
Arkansas	33	$494
Pennsylvania	34	$464
West Virginia	35	$433
New Mexico	36	$432
Alabama	37	$391
Arizona	38	$366
Louisiana	39	$358
Mississippi	40	$290
NORTH DAKOTA	41	$255
New Hampshire	42	$45
Tennessee	43	$24

* Seven states levy no individual income tax.

SOURCE: U.S. Department of Commerce, Bureau of the Census.

Comparison of State Individual Income Taxes, 1997

STATE	RATES (1) Lowest	RATES (1) Highest	INCOME BRACKETS (1) Lowest (up to)	INCOME BRACKETS (1) Highest (over)	Starting Point (2)	Use of Federal Itemized Deductions	DEDUCTIONS-EXEMPTIONS-CREDITS (3) Standard Deduction Single	Standard Deduction Married	Credits are in ( ) Exemptions Personal	Exemptions Dependent	Federal Income Tax Deductible
* Alabama	2.0%	5.0%	$1,000	$6,000	State		$2,000	$4,000	$1,500	$300	Yes
Alaska	NONE										
Arizona	2.9%	5.17%	20,000	300,000	FAGI	Yes	3,600	7,200	2,100	2,300	No
Arkansas (4)	1.0%	7.0%	3,000	25,000	State	Yes	1,000		(20)	(20)	No
California	1.0%	9.3%	10,384	439,744	FAGI	Yes	2,583	5,766	(68)	(68)	No
Colorado	5.0% of Federal Taxable Income				FTI						No
* Connecticut	4.5% of Connecticut Taxable Income				FAGI		See Footnotes		See Footnotes		No
District of Columbia (4)	6.0%	9.50%	10,000	20,000	FAGI	Yes	2,000	2,000	1,370	1,370	No
Delaware	3.1%	6.9%	5,000	30,000	FAGI	Yes	1,300	1,600	1,250	1,250	No
Florida	NONE										
Georgia	1.0%	6.0%	1,000	20,000	FAGI	Yes	2,300	3,000	1,500	2,500	No
Hawaii	2.0%	10.0%	3,000	41,000	FAGI	Yes	1,500	1,900	1,040	1,040	No
Idaho	2.0%	8.2%	2,000	40,000	FAGI	Yes	Same as Federal		Same as Federal		No
Illinois	3.0% of Illinois Taxable Income				FAGI				1,000	1,000	No
Indiana	3.4% of Indiana Taxable Income				FAGI				1,000	1,000	No
Iowa (4)	0.4%	9.98%	1,112	50,040	State	Yes	1,410	3,480	(20)	(40)	Yes
* Kansas	3.5%	6.45%	30,000	30,000	FAGI	Yes	3,000	5,000	Same as Federal		No
* Kentucky	2.0%	6.0%	3,000	8,000	FAGI	Yes	900	900	(20)	(20)	No
* Louisiana	2.0%	6.0%	20,000	100,000	FAGI	Yes	See Footnote		See Footnote		Yes
Maine	2.0%	8.5%	8,250	30,000	FAGI	Yes	Same as Federal		2,150	2,150	No
Maryland	2.0%	5.0%	1,000	3,000	FAGI	Yes	1,500	3,000	1,200	1,200	No
* Massachusetts	12% on Interest, Dividends, & Capital Gains				FAGI		2,200	4,400	2,200	1,000	No
	5.95% on Interest from Massachusetts Banks, Pensions, Alimony, Unemployment, and Rents. 5.95% on Other Income.										
Michigan	4.4% of Michigan Taxable income				FAGI				2,400	2,400	No
Minnesota	6.0%	8.5%	24,800	98,540	FTI	Yes					No
* Mississippi (4)	3.0%	5.0%	5,000	10,000	State	Yes	2,300	3,400	See Footnote		No
Missouri	1.5%	6.0%	1,000	9,000	FAGI	Yes	4,150	6,900	1,200	400	Yes
* Montana (4)	2.0%	11.0%	1,900	67,900	FAGI	Yes	2,910	5,810	1,550	1,550	Yes
Nebraska	2.51%	6.68%	4,000	46,750	FAGI	Yes	4,150	6,900	86	86	No
Nevada	NONE										
New Hampshire	5.0% of Interest and Dividend Income								2,400		No
New Jersey	1.4%	6.37%	20,000	150,000	State	No			1,000	1,500	No
New Mexico	2.2%	8.5%	8,000	88,000	FAGI	Yes	4,150	6,900	2,650	2,650	No
New York	4.0%	6.85%	16,000	40,000	FAGI	Yes	7,500	13,000		1,000	No
North Carolina	6.0%	7.75%	21,250	100,000	FTI						No
* NORTH DAKOTA	14.0% of Federal Income Tax Liability				FL						N/A
* Ohio	0.713%	7.201%	5,000	200,000	FAGI				850	1,050	No
* Oklahoma	0.5%	7.0%	2,000	21,000	FAGI	Yes	2,000	2,000	1,000	1,000	Yes
* Oregon	5.0%	9.0%	4,360	10,120	FAGI	Yes	1,800	3,000	(128)	(128)	Yes
Pennsylvania	2.8% of Pennsylvania Gross Income				State						No
Rhode Island	27.5% of Federal Income Tax Liability				FL						N/A
South Carolina	2.5%	7.0%	2,280	11,400	FTI						No
South Dakota	NONE										
* Tennessee	6.0% of Interest and Dividends								1,250	1,250	No
Texas	NONE										
* Utah	2.55%	7.0%	1,500	7,500	FAGI	Yes	Same as Federal		1,987.50	1,987.50	Yes
* Vermont	25% of Federal Income Tax Liability				FL						N/A
Virginia (4)	2.0%	5.75%	3,000	17,000	FAGI	Yes	3,000	5,000	800	800	No
Washington	NONE										
West Virginia	3.0%	6.50%	10,000	60,000	FAGI				2,000	2,000	No
* Wisconsin	4.9%	6.93%	10,000	20,000	FAGI		See Footnote			(50)	No
Wyoming	NONE										

* See footnotes on following page

Comparison of State Individual Income Taxes - - - Footnotes

(1) Rates generally apply to married individuals filing jointly.

(2) Point at which state tax computation begins. This starting point, however, may be adjusted up or down. Abbreviations are:
FAGI: Federal Adjusted Gross Income
FL: Federal Income Tax Liability
FTI: Federal Taxable Income
State: State's own unique starting point.

(3) Standard deduction for married individuals generally applies to joint return; for separate returns, the table amount would be divided equally between spouses. The exemption amounts generally apply per person. If the starting point for state tax computation is FTI, then standard deductions and exemptions are already included.

(4) Married individuals will generally pay less tax by filing separately.

Alabama. Standard deduction is 20% of FAGI and is limited to $2,000 for singles and to $4,000 for married filing jointly.

Connecticut. Exemptions and personal credits are based on filing status and Connecticut AGI. Exemptions and personal credits are incorporated into the tax tables or are computed using the Tax Calculation Schedule.

Kansas. An alternative tax computation allows a deduction for federal income tax paid, but the rates range from 4.75% on the first $20,000 to 8.75% over $45,000.

Kentucky. Deductions: If a joint return, only one $650 deduction is allowed. If separate return, each spouse can deduct $650.

Louisiana. A combined personal exemption-standard deduction is built into tax tables: $4,500 (single), $9,000 (married filing jointly). Also built into the tables is a $1,000 exemption for each dependent.

Massachusetts. Exemptions are subtracted from 5.95% income first, than remaining amount (if any) is subtracted from 12% income.

Mississippi. Exemption amount is $6,000 (single) and $9,500 (married filing jointly). A spouse filing separately is allowed $4,750. A $1,500 exemption is allowed per dependent.

Montana. Federal income tax deduction is allowed only as itemized deduction.

North Dakota. Taxpayers may file a short form based on federal income tax liability or a long form based on federal taxable income.

Ohio. In addition to the exemptions listed in the table, taxpayers are allowed a $20 credit for each exemption.

Oklahoma. A separate rate schedule with rates ranging from 0.5% (first $2,000) to 10% (over $24,000) applies if a deduction for federal income tax is taken. Standard deduction is the larger of (1) $1,000 or (2) 15% of Oklahoma adjusted gross income, not to exceed amount shown in table.

Oregon. Federal income tax deduction is limited to $3,000.

Rhode Island. Starting for tax year 1998, the rate drops 0.5% to 27%. Thereafter, it drops 0.5% per year until it hits 25%.

Tennessee. Interest from banks and certificates of deposit are excluded.

Utah. Exemptions are 75% of federal exemptions. Federal income tax deduction is limited to one-half of federal tax liability.

Vermont. Plus surtax of 3% of federal tax liability from $3,400 to $13,100 and 6% of federal tax liability over $13,100.

Wisconsin. Standard deduction decreases from $5,200 (single) and $8,900 (married filing jointly) to zero as income increases.

SOURCE: Survey of states conducted by the North Dakota Office of State Tax Commissioner, Individual Income Tax Section, December 1997.

CORPORATION INCOME TAX

CURRENT LAW

Filing Requirements

Every corporation engaged in business in North Dakota or having sources of income in North Dakota must file a North Dakota corporation income tax return. The return is due on the fifteenth day of the fourth month following the close of the tax year. Payment is made with the return.

A corporation is required to make declarations of estimated tax on a quarterly basis if its estimated tax due exceeds $5,000 and its previous year's total tax liability exceeded $5,000.

Starting Point for Calculating Tax

The starting point for calculation of corporation income tax is the federal definition of taxable income. North Dakota income tax law is perpetually federalized, except for safe harbor leases, foreign sales corporations and certain adjustments for depreciation.

Net Income

A corporation's net income is determined by adjusting the corporation's federal taxable income.

Additions to federal taxable income include the following:

- All income, franchise or privilege taxes measured by income which were deducted on the federal return.
- North Dakota depreciation adjustments.
- Interest on state and local obligations (excluding North Dakota).
- Special deductions and net operating loss deductions which were taken on the federal return.

Subtractions from federal taxable income include the following:

- Federal income taxes paid.
- State income tax refunds.
- Interest from U.S. obligations.
- North Dakota depreciation adjustments.
- A domestic dividends exclusion.
- Nonbusiness income from sources outside North Dakota.
- Interest on bonds issued by a regional railway authority in North Dakota.

North Dakota Taxable Income

North Dakota taxable income is that portion of a corporation's net income which is derived from or attributable to sources within North Dakota.

A corporation whose business activity is conducted solely within North Dakota is a nonapportioning corporation and its North Dakota taxable income is its entire net income (federal taxable income plus or minus North Dakota statutory adjustments) reduced by any net operating loss carryforward or carryback attributable to North Dakota sources.

Parent and subsidiary corporations, which operate totally within North Dakota and file a federal consolidated tax return, must file a state consolidated corporation income tax return using the combined report method.

A corporation whose activity is conducted both within and without North Dakota is an apportioning corporation and its North Dakota taxable income is computed by multiplying its net income (federal taxable income plus or minus North Dakota statutory adjustments) by an apportionment factor and reducing this amount by any net operating loss carryforward or carryback attributable to North Dakota sources and by disallowed federal alternative minimum tax. The apportionment formula consists of property, payroll and sales factors, and is calculated as follows:

$$\left(\frac{\text{ND Property}}{\text{Total Property}} + \frac{\text{ND Payroll}}{\text{Total Payroll}} + \frac{\text{ND Sales}}{\text{Total Sales}} \right) \div 3$$

Unitary Report and Water's Edge Election. A unitary combined report is required when two or more corporations are conducting a unitary business. A unitary business is one in which the activities of two or more affiliated corporations depend upon, contribute to, or are integrated with each other. The combined report includes the total net income of all members of the unitary group. To be included in a combined report, an affiliated corporation must have more than 50% of its voting stock owned directly or indirectly by a common parent, which is also a member of the group.

North Dakota applies the unitary concept on a worldwide basis. In other words, total net income includes income of all affiliated companies of the unitary group, both foreign and domestic. However, a corporation may elect to apportion its income using the water's edge approach. Under such an election, the corporation must comply with the following:

1. The election must be made on the return as originally filed.

2. Federal taxes may not be deducted.

3. The water's edge election is binding for five consecutive years.

4. A domestic disclosure spreadsheet must be filed in the election year and every third year thereafter.

5. The water's edge report must include the income and apportionment factors of the water's edge group, 30% of foreign dividends, and 30% of net book income from 80/20 corporations. An 80/20 corporation refers to an affiliated corporation incorporated in the U.S., but having less than 20% of its property and payroll assigned to U.S. locations.

Rate Table

North Dakota corporation income tax is determined by applying the following rates to North Dakota income:

TAXABLE INCOME:	
Up to $3,000	3.0%
$ 3,000 to $ 8,000	4.5%
$ 8,000 to $ 20,000	6.0%
$ 20,000 to $ 30,000	7.5%
$ 30,000 to $ 50,000	9.0%
Over $50,000	10.5%

Tax Credits

North Dakota allows corporation income tax credits for the following:

- Wages and salaries, if the corporation is a new business. The credit is 1% of all wages and salaries for the first three years and ½% of all wages and salaries for the fourth and fifth years. A corporation qualifies for this credit only if it has not received a new or expanding business income tax exemption (see below).

- Investment in a North Dakota venture capital corporation. The credit is limited to 25% of amount invested, or $250,000, whichever is less.

- Investment in the Small Business Investment Company, a limited partnership established by the State of North Dakota. The credit is limited to 25% of the investment.

- Investment in a certified nonprofit development corporation. The credit is limited to 25% of the amount invested.

- Research and experimental expenditures incurred within North Dakota.

- Contributions to nonprofit private high schools and nonprofit private colleges in the state.

- Installation of geothermal, solar or wind energy devices.

- Installation of alternative fuel equipment on a North Dakota licensed motor vehicle.

- A portion of North Dakota wages paid to a developmentally disabled or chronically mentally ill employee.

New Business Exemptions

Qualifications. A new or expansion project in primary sector business or tourism qualifies for an income tax exemption for up to five years. "Primary sector business" means an enterprise which creates wealth by using knowledge or labor to add value to a product, process or service. The exemption is limited to income earned from the qualifying project. The project operator is required to file a state income tax return even though an exemption is granted.

Limitations. A project is not eligible for an exemption if:

- The project received a tax exemption under tax increment financing;
- There is a recorded lien for delinquent property, income, sales or use taxes against the project operator or principle officers; or
- The exemption fosters unfair competition or endangers existing business.

Application Procedures. The project operator applies to the State Board of Equalization, c/o State Tax Commissioner.

- The application must be filed during the first year of project operations.
- The application is reviewed by the Department of Economic Development and Finance.
- The project operator must provide notice to competitors as prescribed by the State Board.
- The State Board considers the application and any testimony at a public meeting and then grants or denies the exemption and certifies the results to the State Tax Commissioner.

Distribution of Revenue

All revenue from the corporation income tax is deposited in the State General Fund.

Reference: North Dakota Century Code chs. 40-57.1, 57-38, 57-38.1, and 57-59.

HISTORICAL OVERVIEW

Significant Changes in Law

1919 Session. A tax on corporation income was first enacted. Among the deductions allowed was a deduction for taxes paid to federal, state, local or foreign governments.

1923 Session. The state's income tax was revised and reenacted with a 3% flat rate.

1937 Session. The legislature changed the corporation income tax from a 3% flat rate to a graduated rate structure. Effective for tax years ending December 31, 1936 and thereafter, corporation tax rates were as follows:

TAXABLE INCOME:	
Up to $3,000	3.0%
$ 3,000 to $ 8,000	4.0%
$ 8,000 to $ 15,000	5.0%
Over $15,000	6.0%

1978 Initiated Measure. The initiated measure passed by the voters added a tax bracket for taxable income over $25,000. Effective for tax years beginning after December 31, 1977, corporation income tax rates were as follows:

TAXABLE INCOME	
Up to $3,000	3.0%
$ 3,000 to $ 8,000	4.0%
$ 8,000 to $ 15,000	5.0%
$ 15,000 to $ 25,000	6.0%
Over $25,000	8.5%

1979 Session. The legislature created a tax credit for contributions to nonprofit private high schools. In addition, legislators repealed the 1% business privilege tax on business income paid by individuals, estates, trusts, partnerships and corporations. The repeal was effective for tax years beginning after December 31, 1980.

1981 Session. The legislature added a tax credit for the installation of a geothermal energy device. A deduction was created for interest on bonds issued by a regional railway authority in North Dakota. Effective for tax years beginning after December 31, 1980, corporation income tax rates were reduced to the following:

TAXABLE INCOME:

Up to $3,000	2.0%
$ 3,000 to $ 8,000	3.0%
$ 8,000 to $ 20,000	4.0%
$ 20,000 to $ 30,000	5.0%
$ 30,000 to $ 50,000	6.0%
Over $50,000	7.0%

1983 Session. Declaration of estimated tax requirements were adopted for corporations with estimated taxes of more than $5,000. The legislature increased corporation tax rates for tax years beginning after December 31, 1982, to the following:

TAXABLE INCOME:

Up to $3,000	3.0%
$ 3,000 to $ 8,000	4.5%
$ 8,000 to $ 20,000	6.0%
$ 20,000 to $ 30,000	7.5%
$ 30,000 to $ 50,000	9.0%
Over $50,000	10.5%

1985 Session. The legislature provided a tax credit for investments made in a North Dakota venture capital corporation.

1987 Session. The legislature allowed corporations to choose the water's edge method of apportioning income for tax years beginning after December 31, 1988. The legislature also enacted an alternative minimum tax, effective for tax years beginning after December 31, 1988. A deduction was added for dividends from the Myron G. Nelson Fund, Inc., a state established venture capital corporation. Credits were created for research expenditures; for investments in the Myron G. Nelson Fund, Inc.; and for North Dakota wages paid to developmentally disabled or chronically mentally ill employees. Income tax returns, beginning with tax year 1988, were required to include a provision for optional contributions to the nongame wildlife fund. The legislature removed limitations on the type of business qualifying for the new business exemption. Previously, the exemption was limited to assembling, fabricating, manufacturing, mixing, processing, storing, warehousing, or distributing any agricultural, mineral or manufactured product. In effect, qualifications were expanded to include service and retail industries.

1989 Session. The legislature added a credit for investment in a nonprofit development corporation. The alternative minimum tax rate was changed from 5% to 6% and a credit was created for the amount that the alternative minimum tax exceeds regular liability in past years. The water's edge election was made binding for five years instead of ten and the spreadsheet requirement was reduced from yearly to the first year and every third year thereafter. The centennial tree trust fund was added as an optional contribution.

1991 Session. The alternative minimum tax (AMT) was repealed and the remaining AMT tax credit was allowed to be carried over for up to four years. A deduction was added for certain federal AMT disallowed on previous state returns. The legislature repealed requirements that corporation income tax returns provide for optional contributions to funds for wildlife and centennial trees. The legislature approved administrative changes recommended by a special Taxpayer Bill of Rights project involving the private sector and the North Dakota Tax Department. The income tax exemption for new or expanding businesses was decoupled from the property tax exemption and was limited to value-adding primary sector and tourism businesses.

1993 Session. The legislature legalized the limited liability company, a new form of business entity. The requirement to file informational returns was removed for tax exempt organizations and insurance companies subject to the insurance premium tax (see page 97); however, unrelated taxable income must be reported. A credit was created for alternative fuel equipment installed on motor vehicles.

1994 Special Session. The project size limitations were removed as qualifications for the new or expanding business tax exemption. The change allowed large projects to qualify.

1995 Session. The Myron G. Nelson Fund, Inc. was changed to the North Dakota Small Business Investment Company, a limited partnership, and the tax credit provisions did not change. The legislature required corporations with parent and subsidiaries operating totally in the state to file a state consolidated corporation income tax return using the combined report method for tax years beginning after December 31, 1994.

1997 Session. The Legislature changed the law for a single member limited liability company (LLC). A single member LLC will be treated as a corporation for North Dakota purposes if treated as a corporation for federal income tax purposes; otherwise it must be disregarded as an entity separate from its owner. If any LLC meets the definition of a financial institution, as defined in N.D.C.C. ch. 57-35, then it must file as a financial institution. A corporation may elect to apply an overpayment of estimated tax to a specific estimated installment other than the first quarter's installment. A number of changes were made affecting the interest calculation provisions.

Corporation Income Tax Collections

Fiscal Year	Net Collections
1987	30,871,422
1988	38,982,930
1989	40,685,159
1990	40,486,001
1991	49,321,208
1992	36,778,251
1993	42,525,921
1994	50,727,400
1995	44,027,738
1996	49,047,417
1997	50,300,520
1998	65,543,025
1999 est.	44,776,000

SOURCE: North Dakota Office of State Tax Commissioner and estimates prepared with the Office of Management and Budget.

STATE COMPARISONS

North Dakota's corporation income tax rates range from 3.0% on taxable income under $3,000 to 10.5% on taxable income over $50,000. However, the effective rates are much lower because a corporation may deduct the entire amount of its federal income tax liability before calculating its state tax liability.

Since this federal income tax deduction is allowed by just four other states, it is very important that it be considered when North Dakota's tax is compared to other states' corporation income taxes. Adjusting rates for the federal tax deduction results in an effective North Dakota rate that ranges from a low of 2.55% to a high of 6.83%.

Please note that a comparison of corporation tax obligations would need to consider, in addition to tax rates, complex variables such as different state definitions of taxable income and circumstances of each corporation.

Comparison of State Corporation Income Tax Rates

Rates for tax year 1997 in effect as of December 1997

A comparison of tax **obligations** would also need to consider complex variables such as different state definitions of taxable income and circumstances of each corporation.

	State	Tax Rate		Income Brackets		Surtax	Is Federal	Comparable Effective Rate When Federal Income Tax Deduction Is Considered (15% Low, 35% High)	
		Lowest	Highest	Lowest (Up To)	Highest (Over)	For 1997	Income Tax Deductible?	Lowest	Highest
	Alabama	5.0%		Flat Rate			Yes	4.25%	3.25%
*	Alaska	1.0%	9.4%	$ 10,000	$ 90,000		No	1.0%	9.4%
*	Arizona	9.0%		Flat Rate			No	9.0%	9.0%
*	Arkansas	1.0%	6.5%	$ 3,000	$ 100,000		No	1.0%	6.5%
*	California	8.84%		Flat Rate			No	9.3%	9.3%
	Colorado	5.0%		Flat Rate			No	5.0%	5.0%
*	Connecticut	9.75%		Flat Rate			No	10.75%	10.75%
	Delaware	8.7%		Flat Rate			No	8.7%	8.7%
*	District of Columbia	9.975%		Flat Rate			No	9.975%	9.975%
*	Florida	5.5%		Flat Rate			No	5.5%	5.5%
	Georgia	6.0%		Flat Rate			No	6.0%	6.0%
*	Hawaii	4.4%	6.4%	$ 25,000	$ 100,000		No	4.4%	6.4%
*	Idaho	8.0%		Flat Rate			No	8.0%	8.0%
*	Illinois	4.8%		Flat Rate			No	4.8%	4.8%
*	Indiana	7.9%		Flat Rate			No	7.9%	7.9%
*	Iowa	6.0%	12.0%	$ 25,000	$ 250,000		Yes	5.55%	9.9%
*	Kansas	4.0%		Flat Rate		3.35%	No	4.0%	4.0%
	Kentucky	4.0%	8.25%	$ 25,000	$ 250,000		No	4.0%	8.25%
	Louisiana	4.0%	8.0%	$ 25,000	$ 200,000		Yes	3.4%	5.2%
*	Maine	3.5%	8.93%	$ 25,000	$ 250,000		No	3.5%	8.93%
	Maryland	7.0%		Flat Rate			No	7.0%	7.0%
*	Massachusetts	9.5%		Flat Rate			No	9.5%	9.5%
*	Michigan	2.3%		Flat Rate			No	2.3%	2.3%
*	Minnesota	9.8%		Flat Rate			Yes	8.33%	6.37%
	Mississippi	3.0%	5.0%	$ 5,000	$ 10,000		No	3.0%	5.0%
*	Missouri	6.25%		Flat Rate			Yes	5.31%	4.06%
*	Montana	6.75%		Flat Rate			No	6.75%	6.75%
	Nebraska	5.58%	7.81%	$ 50,000	$ 50,000		No	5.58%	7.81%
	Nevada	no tax							
*	New Hampshire	7.0%		Flat Rate			No	7.0%	7.0%
*	New Jersey	7.5%	9.0%	$100,000	$ 100,000		No	7.5%	9.0%
*	New Mexico	4.8%	7.6%	$ 500,000	$1,000,000		No	4.8%	7.6%
*	New York	9.0%		Flat Rate		2.5%	No	9.0%	9.0%
*	North Carolina	7.5%		Flat Rate			No	7.75%	7.75%
	NORTH DAKOTA	3.0%	10.5%	$ 3,000	$ 50,000		Yes	2.55%	6.83%
*	Ohio	5.1%	8.9%	$ 50,000	$ 50,000		No	5.1%	8.9%
	Oklahoma	6.0%		Flat Rate			No	6.0%	6.0%
*	Oregon	6.6%		Flat Rate			No	6.6%	6.6%
	Pennsylvania	9.99%		Flat Rate			No	9.99%	9.99%
	Rhode Island	9.0%		Flat Rate			No	9.0%	9.0%
	South Carolina	5.0%		Flat Rate			No	5.0%	5.0%
	South Dakota	no tax							
*	Tennessee	6.0%		Flat Rate			No	6.0%	6.0%
*	Texas	4.5%		Flat Rate			No	4.5%	4.5%
*	Utah	5.0%		Flat Rate			No	5.0%	5.0%
*	Vermont	5.5%	9.75%	$ 10,000	$ 250,000		No	5.5%	9.75%
	Virginia	6.0%		Flat Rate			Yes	5.1%	3.9%
	Washington	no tax							
	West Virginia	9.0%		Flat Rate			No	9.0%	9.0%
*	Wisconsin	7.9%		Flat Rate		5.5%	No	7.9%	7.9%
	Wyoming	no tax							

* See footnotes on following page.

Comparison of State Corporation Income Tax Rates
Footnotes

Alaska. Alternative minimum tax rate is 4.5% on capital gains and 18% on tax preference items.

Arizona. Minimum tax, $50.

Arkansas. The top tax rate of 6.5% is applied only to income above $100,000.

California. C corporations, 8.84%. Financial C corporations, 10.84%. C corporations Alternative Minimum Tax, 6.65%. S corporations 1.5%. Financial S corporations 3.5%. S corporations Alternative Minimum Tax, none. Minimum Tax for all corporations, $800.

Connecticut. The tax is imposed on net income, plus (to the extent it exceeds the net income tax) a tax of 3.1 mills per dollar on value of capital stock and surplus (minimum $250, maximum $1 million). Future tax rates are: 9.5% for 1998, 8.5% for 1999, and 7.5% for 2000.

District of Columbia. Minimum tax, $100.

Florida. Alternative minimum tax, 3.3%.

Hawaii. Capital gains are taxed at 4%.

Idaho. Minimum tax, $20. Additional $10 tax on each corporation.

Illinois. Replacement tax of 2.5% of federal taxable income. Corporations are given credits against corporation income tax of 5% of the replacement tax.

Indiana. Domestic and interstate corporations pay a tax of 3.4% of adjusted gross income from sources within Indiana. Corporations pay the greater of the adjusted gross income tax plus a 4.5% supplemental net income tax, or a gross receipts tax. The gross receipts tax is based on a high of 1.2% and a low of 0.3% of gross income.

Iowa. Allows deduction of 50% of federal income taxes. Amount is based on federal alternative minimum tax and taxed at 7.2%.

Kansas. The 3.35% surtax is imposed on taxable income in excess of $50,000.

Maine. Additional state minimum tax is imposed equal to the amount that the state minimum tax (27% of adjusted federal tentative minimum tax) exceeds Maine income tax liability, other than withholding tax liability.

Massachusetts. Corporations pay an excise tax equal to the greater of the following: (a) 0.0026% per $1,000 of Massachusetts tangible property not taxed locally or net worth allocated to Massachusetts, plus 9.5% of net income; or (b) $400 tax plus surtax of $56.

Minnesota. An additional tax equal to the excess of 5.8% of Minnesota alternative minimum taxable income over the basic tax is imposed. Corporations are subject to an additional minimum tax ranging from $0 to $5,000 depending on the Minnesota property, payroll and sales or receipts and the type of corporation or partnership.

Michigan. The Michigan single business tax is 2.3% of the sum of federal taxable income of the business, compensation paid to employees, dividends, interest, royalty paid and other items.

Missouri. The federal income tax deduction is 50% of federal tax liability times a "profit company ratio".

Montana. Corporations electing to use water's edge apportionment are taxed at 7%. Minimum tax, $50. Qualified corporations may elect to pay an alternative tax of 0.5% of gross sales in Montana, with no minimum tax.

New Hampshire. Business enterprise tax, 0.25% of total amount of dividends paid, interest paid, and compensation paid. The corporate income tax paid can be used as a credit to offset this tax within five years.

New Jersey. Business (franchise) tax, 9% of entire net income allotted to New Jersey, except corporations with entire net incomes of $100,000 or less, which are taxed at 7.5%. Minimum tax for domestic and foreign corporations for 1997 is $200. S corporations, 2.63%. If S corporation income is $100,000 or less, it is taxed at 1.13%.

New Mexico. Qualified taxpayers may pay an alternative tax of 0.75% of gross receipts from New Mexico sales.

New York. Corporations are subject to whichever produces the greatest tax of the following four methods: 1) the 9% tax (8% on small corporations); 2) 0.00178% of capital; 3) 3.5% alternative minimum tax; or 4) a minimum tax of $325 with a maximum of $1,500 if assets or receipts are greater than $1,000 and there is less than $1 million in payroll. A surtax rate of 2.5% is effective July 1, 1997, and will phase out by December 31, 1997.

North Carolina. The flat rate is 7.5% in 1997; 7.25% in 1998; 7.0% in 1999; and thereafter 6.9%. North Carolina also imposes a franchise tax of $1.50 per $1,000 of net worth.

Ohio. Minimum tax, $50. Railroads are now subject to corporate income tax.

Oregon. Minimum tax, $10. A 51% rebate of corporate tax paid was offered in 1995. No determination has been made yet about rebates for 1996 or 1997.

Tennessee. Corporations are also subject to the tax on dividends and interest. Franchise tax $.25 per $100, if Tennessee chartered.

Texas. Corporation tax is made up of two components, capital and surplus. The capital tax is $2.50 per $1,000 of capital (stock and retained earnings). The surplus tax is based on federal taxable income plus statutory adjustments. The apportionable state taxable income is multiplied by 4.5% to arrive at the surplus tax. If the total surplus tax is greater than the capital tax, the capital tax is subtracted from the surplus tax. The difference is called the surplus tax. The capital tax is added to this difference to arrive at the total tax due. If this total is less than $100, no tax is due.

Utah. Minimum tax, $100.

Vermont. Minimum tax, $250; small farm, $75.

Wisconsin. Surtax minimum, $25. Surtax maximum, $9,800.

SOURCE: Survey of states conducted by North Dakota Office of State Tax Commissioner, Corporation Income Tax Section, December 1997, and Federation of Tax Administrators.

SALES AND USE TAXES

CURRENT LAW

SALES TAX AND USE TAX

Imposition and Rates

Sales Tax. North Dakota imposes a sales tax on the gross receipts of retailers. The tax is paid by the purchaser and collected by the retailer.

The sales tax is levied as follows:

- 5% general rate on the gross receipts from retail sales of tangible personal property, communication services, magazines and other periodicals sold over the counter, cigarettes and tobacco products, and admission tickets for recreation activities; from the rental of hotel and motel accommodations; and from the leasing of tangible personal property.

- 3% rate on the gross receipts from retail sales of farm machinery and irrigation equipment used exclusively for agricultural purposes, farm machinery repair parts, and new mobile homes

- 2% rate on the gross receipts from retail sales of natural gas.

- 7% rate on the gross receipts from retail sales of alcoholic beverages sold for consumption either on or off the premises.

- 6¢ per million British thermal units (MBTU) on all sales of coal, except for coal used for heating buildings or used in agricultural processing or sugar beet refining plants, or coal exempted from the tax imposed by N.D.C.C. ch. 57-61. (The 6¢ tax collections are deposited in the coal development fund.)

Use Tax. The purchase price of tangible personal property purchased outside of the state for storage, use or consumption within the state is subject to a use tax. In addition, tangible personal property not originally purchased for use in North Dakota is subject to a use tax based upon its fair market value at the time it was brought into the state. Credits are allowed for sales and use taxes paid to other states.

The use tax is collected by any retailer who maintains in this state, directly or indirectly, an office, distribution house, sales house, warehouse, or other place of business or has a sales representative operating in this state either permanently or temporarily. This also includes every person who engages in regular or systematic solicitation of sales of tangible personal property in this state by the distribution of catalogs, periodicals, advertising flyers, or other advertising, by means of print, radio or television media, or by mail, telegraphy, telephone, computer data base, cable, optic, microwave or other communication system for the purpose of effecting retail sales of tangible personal property.

Use tax is paid by contractors installing materials in real property, including real property owned by government and tax-exempt entities. North Dakota use tax is also paid by contractors buying materials in North Dakota and installing them in other states, except Montana.

Use tax rates are the same as the sales tax rates listed.

Local Sales and Use Taxes. Cities or counties which have adopted home rule charters may levy sales and use taxes. The city or county may contract with the North Dakota Office of State Tax Commissioner to collect the local taxes. The state pays the revenue collected to the local governments on a monthly basis. To date, no county has levied a local sales tax. Cities with a local tax are listed on page 36.

Exemptions

Receipts from the sale of tangible personal property for the purpose of "resale" or "processing" by the purchaser are not subject to the sales and use tax. In addition, receipts from the sale of the following items are exempt from sales and use tax:

- Food for human consumption off the premises
- Food used as samples in grocery stores
- Commercial fertilizers, fungicides, herbicides, adjuvants, feeds, and seeds used for agricultural purposes

- Agricultural by-products used to produce steam or electricity
- Interstate communications (telephone calls, etc.)
- Hotel or motel rooms rented by or for same individual for 30 or more consecutive days
- Machinery and equipment that a new or expanding plant uses primarily for manufacturing, processing or recycling (the company must get pre-approval or pay the tax and apply for a refund)
- Materials used to construct an agricultural processing plant (the company must get pre-approval or pay the tax and apply for a refund)
- Production equipment in a large coal-burning power plant and tangible personal property used in construction of the plant
- Used mobile homes
- Newspapers
- Newsprint and printer's ink sold to publishers
- Magazine subscriptions
- Electricity
- Water (one gallon or more)
- Steam used to process agricultural products
- Flight simulators or mechanical equipment used with a flight simulator
- Money
- Admissions to, or sales made at, an annual church supper or bazaar held in a publicly-owned building
- Admission tickets to state or local fairs
- Performances of community non-profit music or dramatic arts organizations (if proceeds used for charitable purposes)
- Film rentals if admissions to view the film are subject to sales tax
- Prescription drugs
- Artificial medical devices
- Equipment used to modify articles for use by physically disabled persons
- Oxygen and anesthesia gases for medical purposes
- Diabetic and bladder dysfunction supplies
- Ostomy devices and supplies
- Items sold to federal chartered credit unions
- Items subject to other taxes such as coal if not used for heating, beneficiated coal, aircraft, motor vehicles, gasoline, and combustible fuels
- Items sold to private schools
- Bibles, hymnals, textbooks, prayerbooks sold to nonprofit religious organizations
- Items sold to governmental agencies, including public schools
- Items sold to residents of Montana if the total sales price exceeds $50
- Items sold to residents of Canada if purchase is over $25 (must apply for a refund of tax paid)
- Items sold on an Indian reservation to an American Indian
- Goods sold to a hospital or skilled nursing, basic care or intermediate care facility
- Items sold at an auction unless the auctioneer is selling retail inventory or consigned goods owned by an undisclosed principal

Administration

Every business making taxable retail sales and every business accruing a use tax liability must obtain a North Dakota sales and use tax permit from the North Dakota Office of State Tax Commissioner. A consolidated form is used to register for a sales and use tax permit, income tax withholding, unemployment insurance and workers compensation.

Most businesses pay sales and use taxes on a quarterly basis. However, businesses with taxable sales and purchases of $333,000 or more during the previous calendar year must file monthly returns. Businesses that file and pay monthly returns on time are allowed to deduct and retain a compensation allowance of 1½% of the tax due, up to a maximum of $85 per month.

Whether the tax is paid monthly or quarterly, the tax payment and a return reporting all sales and purchases are due the last day of the month following the end of the reporting period. In odd-numbered years, monthly returns for May are due June 22.

Distribution of Revenue

Revenue collected from the sales and use tax is divided between the State General Fund and the State Aid Distribution Fund. The formula to determine the State Aid Distribution Fund portion is designed to keep the amount constant regardless of tax rate changes. The formula is:

1. Effective through December 31, 1998:
   60% (1% ÷general sales tax rate) (net collections)

This formula currently yields about 12% of net collections. Of this portion, 50% is allocated to revenue sharing and 50% to personal property tax replacement.

2. Effective after December 31, 1998:
   40% (1% ÷ general sales tax rate) (net collections)

The distribution of the State Aid Distribution Fund portion is 53.7% to revenue sharing for counties and 46.3% for cities.

Reference: North Dakota Century Code chs. 57-39.2 and 57-40.2.

MOTOR VEHICLE EXCISE TAX

Imposition and Rates

The purchase price of any motor vehicle purchased or acquired, either within or outside of North Dakota, for use on the streets or highways of this state is subject to a motor vehicle excise tax if the vehicle is required to be registered in North Dakota.

The motor vehicle excise tax is 5% of the purchase price (the sale price less any trade-in amount). If the vehicle is acquired by means other than purchase, the tax is 5% of the fair market value. North Dakota allows credit for any excise tax paid on a motor vehicle in another state if that state allows a reciprocal credit.

The motor vehicle excise tax is in addition to motor vehicle registration fees for license plates. The registration fees are paid annually to the Department of Transportation.

Exemptions

A motor vehicle is exempt from the motor vehicle excise tax if the vehicle is:

- A gift between a husband and wife, parent and child or brother and sister
- Inherited
- A motor carrier vehicle
- Purchased for resale by a licensed dealer
- Purchased by a disabled veteran
- Purchased or leased by the State of North Dakota or a political subdivision of the state
- A bus purchased by a nonprofit senior citizens' or handicapped persons' organization
- Specially equipped for a disabled person
- Owned by an individual and transferred to a partnership or corporation
- Transferred from a partnership to one of the partners when the partnership dissolves
- Acquired by a private nonprofit school for the transportation of students
- Transferred between joint tenants in whose names the vehicle was previously titled if the vehicle is transferred without monetary considerations
- Owned by a person who has a change of name due to marriage, adoption, court order, etc.
- Transferred from a lessor to a lessee if the lessee has been in continuous possession of the vehicle for at least one year
- Transferred without consideration to or from a person within 30 days before the person enters into or is discharged from the armed services of the United States or while the person is serving in the armed forces of the United States.
- Subject to a lien change but only if the registered owner has not changed
- Brought into North Dakota by a nonresident moving into the state and establishing residence in the state, and if the vehicle was not expressly purchased for use within North Dakota
- Manufactured by persons for their own use
- Transferred from a corporation to one of the stockholders when a corporation is dissolved
- Acquired by a nonprofit county or local historical society that is exempt from federal income tax.

Administration

The motor vehicle excise tax is collected by the Department of Transportation.

Distribution of Revenue

Motor vehicle excise tax revenue is credited to the general fund.

Reference: North Dakota Century Code ch. 57-40.3.

MUSIC AND DRAMATICO-MUSICAL COMPOSITION PERFORMING RIGHTS TAX

A 5% tax is levied on the gross receipts from all sales, licenses and other dispositions of performing rights in music or dramatico-musical compositions. The tax is administered by the North Dakota Office of State Tax Commissioner and revenue from the tax is placed in the State General Fund.

Reference: North Dakota Century Code § 47-21-08.

LODGING TAXES

Imposition and Rates

The governing body of any city may, by ordinance, impose a city tax, not to exceed 2%, upon the receipts from leasing or renting hotel and motel accommodations. Revenue from the tax must be deposited in a city visitors promotion fund to be used for tourism promotion. These funds may not be used for capital construction.

A city may impose an additional 1% tax on lodging accommodations and on receipts from restaurant sales of prepared food or beverages. Revenue from this tax must be deposited in the city visitors promotion capital construction fund.

Administration

The North Dakota Office of State Tax Commissioner administers and collects most city lodging taxes and remits the revenue to the cities on a monthly basis. An administrative fee of 3% of collections is deposited in the State General Fund. A few cities, such as Fargo, Minot and Grand Forks, administer their lodging taxes themselves.

Reference: North Dakota Century Code ch. 40-57.3.

AIRCRAFT EXCISE TAX

Imposition and Rates

A 5% tax is imposed on the purchase price or market value of aircraft registered in North Dakota. The tax applies whether the aircraft is purchased in North Dakota or outside the state. If the aircraft is purchased for lease or rental, the tax may be imposed on the lease or rental cost of the aircraft.

On aircraft designed exclusively for aerial applications of agricultural fertilizers, pesticides and other agricultural materials, a reduced tax rate of 3% applies to the purchase price or rental cost of the aircraft.

Exemptions

Exemptions to the aircraft excise tax are identical to motor vehicle excise tax exemptions.

Administration

The tax is paid by the purchaser to the Director of Aeronautics when the aircraft is acquired. The purchaser is required to submit the tax with an "aircraft purchaser's certificate" showing a description of the aircraft, the names and addresses of the buyers and sellers, and the full purchase price of the aircraft.

Distribution of Revenue

Revenue from the tax is deposited in the Aeronautics Commission Special Fund.

Reference: North Dakota Century Code ch. 57-40.5.

HISTORICAL OVERVIEW

Significant Changes in Law

1935 Session. The first general sales tax in North Dakota was enacted at a rate of 2%. The tax base generally consisted of all sales to consumers of personal property; sales or service of gas, electricity, water and communication; and sales of tickets to places of amusement.

1939 Session. A 2% general use tax was enacted. The tax base was limited to tangible personal property.

1963 Session. The legislature increased the sales and use tax rate from 2% to 2¼% and broadened the tax base to include services rendered in the repair, alteration, restoration and cleaning of tangible personal property; hotel and motel accommodations; amusements involving participation; and leasing or renting of tangible personal property.

1965 Referred Measure. The sales tax law was referred to a vote of the people and disapproved. Consequently, during the period July 1, 1965 to April 1, 1967 use tax was collected in place of the disapproved sales tax.

1967 Session. New sales and use tax laws were enacted imposing a 3% tax on the same sales transactions that were in effect through the 1963 sales tax law except services rendered in the repair, alteration, restoration and cleaning of tangible personal property were not included in the new base. In addition, the legislature enacted a separate 3% motor vehicle excise tax.

1969 Session. Sales tax, use tax, and motor vehicle excise tax rates were increased from 3% to 4%, effective January 1, 1970. The increase was used to replace revenue lost to local governments by the repeal of the personal property tax. The sales tax base was broadened to include tobacco products, alcoholic beverages, and oleomargarine.

1973 Session. Food purchased for off premises consumption was exempted from the sales and use tax.

1975 Session. Exemptions were added for sales of artificial devices for handicapped persons, coal, sales to nursing homes and intermediate care facilities, and the sales of certain religious books to nonprofit religious organizations.

1976 Initiated Measure. Voters approved an initiated measure which reduced the sales and use tax rate and the motor vehicle excise tax rate from 4% to 3%, reduced the rate on farm machinery and irrigation equipment from 4% to 2%, and eliminated the tax on electricity. These changes became effective January 1, 1977.

1977 Session. The legislature authorized home rule cities to contract with the North Dakota Office of State Tax Commissioner to collect city sales and use taxes.

1979 Session. Exemptions to the sales and use tax law were added for sales to hospitals and for ostomy devices and supplies. The exemption for devices to aid the handicapped was expanded.

1981 Session. The legislature eliminated the sales and use tax on water, used mobile homes, and magazine subscriptions. The tax rate on new mobile homes was reduced from 3% to 2%. Also, cities were permitted to levy a 2% city lodging tax.

1983 Session. The general sales and use tax rate and the motor vehicle excise tax rate were increased from 3% to 4% and the rate for farm machinery, irrigation equipment, and new mobile homes was increased from 2% to 3%. The legislature increased the rate for alcoholic beverages from 3% to 5%. The requirements for remittance of sales and use tax were changed from a quarterly basis to a monthly basis for businesses with taxable sales and purchases greater than $333,000 in the preceding calendar year. Retailers required to file on a monthly basis were given a deduction for administrative expenses. The tax on aircraft sales was changed from the sales tax to a separate aircraft excise tax.

1985 Session. Exemptions for sales of candy, pop and chewing gum were repealed. The legislature authorized home rule counties to contract with the North Dakota Office of State Tax Commissioner to collect county sales and use taxes.

1986 Special Session. The legislature raised the general sales and use tax rate and the motor vehicle excise tax rate from 4% to 5%. The rate on farm machinery repair parts was lowered from 4% to 3%, and the rate on alcoholic beverages was increased from 5% to 6%. No change was made in the 3% rate for farm machinery, irrigation equipment, and new mobile homes.

1987 Session. The legislature increased the general sales and use tax rate and the motor vehicle excise tax rate from 5% to 5½%; the rate on farm machinery, irrigation equipment, farm machinery repair parts and new mobile homes from 3% to 3½%; and the rate on alcoholic beverages from 6% to 6½%.

The legislature added cable TV services to the tax base. [However, in a 1988 referred measure, the cable TV provision was rejected and did not take effect.] Exemptions were created for flight simulators, annual church suppers and bazaars, and adjuvants used with farm chemicals. The legislature required use tax collection by those who solicit sales by mail or other communication systems.

Effective July 1, 1989, a portion of the sales, use and motor vehicle excise tax collections was allocated to the State Aid Distribution Fund to finance revenue sharing and personal property tax replacement. Also, cities were granted authority to impose a 1% lodging and restaurant tax.

1989 Session. The legislature increased the general sales and use tax rate and the motor vehicle excise tax rate from 5½% to 6%. The rate on farm machinery, irrigation equipment, farm machinery repair parts, and new mobile homes was increased from 3½% to 4%; and the rate on alcoholic beverages was increased from 6½% to 7%. These rate changes became effective May 1, 1989. In addition, the legislature created a new rate of 3% on machinery and equipment used in manufacturing or in processing agricultural products.

The tax base was broadened to include bingo cards, coffee, tea, cocoa, and certain bottled water. State chartered credit unions also lost the sales tax exemption on items purchased for their own use. The existing exemption for residents of Montana was modified and the exemption for residents of Canada was replaced with a refund provision. An exemption was created for prepared food given away as samples in a grocery store. Effective July 1, 1991 a portion of sales, use and motor vehicle excise tax collections was allocated to the Capital Construction Fund. The legislature enacted a controlled substances tax.

1989 Referral Election. In a Special Election, the general sales and use tax rate and the motor vehicle excise tax rate were reduced from 6% to 5%. The rate on farm machinery, irrigation equipment, farm machinery repair parts and new mobile homes was reduced from 4% to 3%. These changes became effective December 6, 1989. The rate on alcoholic beverages remained at 7%.

1991 Session. The legislature approved a gradual decrease in the rate on natural gas from 5% to 4% on January 1, 1993; to 3% on January 1, 1994; and to 2% on January 1, 1995. The 3% special rate for manufacturing equipment was changed to an exemption and an exemption was created for production equipment in coal-burning power plants. The legislature approved administrative changes recommended by a special Taxpayer Bill of Rights project involving the private sector and the North Dakota Office of State Tax Commissioner. The destination of aircraft excise tax revenue was changed from the State General Fund to the Aeronautics Commission Special Fund. A waste collection surcharge was imposed, effective January 1, 1992.

1993 Session. The legislature eliminated the Capital Construction Fund. The exemption for manufacturing machinery and equipment was clarified and expanded to include recycling machinery and equipment. Performances of community non-profit music or dramatic arts organizations held in a public facility were exempted. Items purchased by political subdivisions of another state were made taxable if the other state also taxes the items. A new highway contract privilege tax was established at 5% of the gross contract amount for contracts bid after July 31, 1993. This tax terminates December 31, 1997.

1994 Special Session. Qualifications for the manufacturing exemption were broadened to include any machinery and equipment used primarily in the manufacturing operation from receipt of raw materials to any process before final transportation from the site. The exemption was expanded to include research and development equipment. A new exemption was created for materials used to construct an agricultural processing facility.

1995 Session. Tire retreading was made taxable. The legislature repealed the tax on controlled substances and the waste collection surcharge.

1997 Session. The legislature approved a sales and use tax of 6¢ per million British thermal units (MBTU) on all sales of coal, except for coal used for heating buildings or used in agricultural processing or sugar beet refining plants, or coal exempted from the tax imposed by N.D.C.C. ch. 57-61.

An exemption was provided to a political subdivision of another state provided a sale to a North Dakota political subdivision is treated as an exempt sale in that state.

Sales, Use and Motor Vehicle Excise Taxes Collections and Disbursements

TOTAL (Sales, Use and Motor Vehicle Excise Taxes)

Fiscal Year	All Funds Total	To General Fund	To State Aid Distribution Fund (1)	To Capital Construction Fund (2)	To Highway Tax Distribution Fund (3)
1989	255,940,350	254,228,110			1,712,240
1990 (5)	262,919,656	234,013,632	28,906,024		
1991	263,578,272	231,978,013	31,600,259		
1992	260,182,532	223,756,978	31,221,904	5,203,650	
1993	288,390,742	248,597,373	34,606,866	5,186,504	
1994	298,425,168	263,073,339	35,351,829		
1995	328,376,896	288,512,478	39,864,418		
1996	329,134,892	299,638,706	39,496,187		
1997	358,900,354	315,832,932	43,067,422		
1998	363,158,056	319,584,864	43,573,192		
1999*	400,099,000	359,896,000	40,203,000		

	Sales and Use Taxes				Motor Vehicle Excise Tax				
Fiscal Year	Total Sales and Use	General Fund	State Aid Distribution Fund (1)	Capital Constr. Fund (2)	Total Motor Veh. Taxes	General Fund	State Aid Distribution Fund (1)	Capital Constr. Fund (2)	Highway Tax Distribution Fund (3)
1989	221,476,698	221,476,698			34,463,652	32,751,412			1,712,240
1990 (4)	227,005,352	202,062,880	24,942,472		35,914,304	31,950,752	3,963,552		
1991	231,387,307	203,649,964	27,737,343		32,190,965	28,328,049	3,862,916		
1992	225,936,774	194,305,626	27,112,413	4,518,735	34,245,758	29,451,352	4,109,491	684,915	
1993	250,174,704	215,650,735	30,020,941	4,503,028	38,216,038	32,946,638	4,585,925	683,476	
1994	254,419,108	223,888,815	30,530,293		44,006,060	39,184,524	4,821,536		
1995	282,291,474	248,416,497	33,874,977		46,085,422	40,095,981	5,989,441		
1996	280,319,012	246,680,731	33,638,282		48,815,880	42,957,975	5,857,905		
1997	307,553,834	270,647,374	36,906,460		51,346,520	45,185,558	6,160,962		
1998	308,636,871	271,606,221	37,030,650		54,521,185	47,978,643	6,542,542		
1999*	344,579,000	309,972,000	34,607,000		55,520,000	49,924,000	5,596,000		

* Estimate

(1) The formula to calculate the State Aid Distribution Fund (S.A.D.F.) allocation is: 60% (1% ÷ general sales tax rate) (net collections of sales use and motor vehicle excise tax collections). A 6% tax rate was in effect through December 5, 1989 and the formula was (1/6 x 60%) or about 10% of net collections. Since December 6, 1989 the tax rate has been 5% and the formula (1/5 x 60%) = 12% of net collections. Effective January 1, 1999 the S.A.D.F. will receive 1/5 x 40% (or 8%) of net collections. This legislated formula change is reflected in the 1999 estimates. The legislature has transferred S.A.D.F. revenue to special funds and the General Fund. Transfers to the General Fund were $3,750,000 in the 1989-91 biennium, $21,989,000 in the 1993-95 biennium, $35,445,000 in the 1995-97 biennium, and $29,595,000 in the 1997-99 biennium. These amounts are included in the S.A.D.F. figures above.

(2) The Capital Construction Fund allocation was based on a 5% general sales tax rate; the formula was (1/5 x 10%) = 2% of net collections.

(3) Before fiscal year 1990, 50% of the motor vehicle excise tax on vehicles purchased outside North Dakota was deposited in the Highway Tax Distribution Fund. Beginning with fiscal year 1990, those monies are deposited in the General Fund.

(4) Collections reflect rate increase from 5½% to 6% (1989 Legislature) and the subsequent reduction to 5% (December 1989 referral).

SOURCE: North Dakota Office of State Tax Commissioner and estimates prepared with the Office of Management and Budget.

Other Revenue Collections
City Taxes, Aircraft Excise Tax, Music and Composition Tax and Waste Collection Surcharge

Fiscal Year	City Sales & Use Tax[1]	City Lodging[2]	City Restaurant and Lodging	Aircraft Excise Tax	Music and Composition Tax	Waste Surcharge[3]
1986	3,476,102	623,362		190,414	56,181	
1987	9,572,294	614,860		184,208	27,129	
1988	9,236,001	577,367	574,552	201,130	32,034	
1989	11,164,215	692,470	914,429	228,140	29,153	
1990	14,788,260	692,416	871,502	322,224	247,696	
1991	18,229,655	797,654	1,070,483	341,860	80,766	
1992	21,943,620	865,431	1,050,036	189,718	21,167	152,739
1993	29,152,603	916,525	1,443,504	178,179	85,936	661,213
1994	30,866,426	893,128	1,402,771	214,896	65,834	676,470
1995	35,243,461	987,620	1,569,507	378,539	68,710	693,097
1996	36,534,413	1,004,066	1,644,024	353,470	65,222	176,176
1997	45,184,127	1,082,847	1,853,999	447,124	77,233	322
1998	48,929,646	1,023,667	1,908,393	262,394	74,424	

(1) Collections by the North Dakota Office of State Tax Commissioner. The state's administrative collection fee has not been deducted.

(2) Amounts are city lodging taxes collected by the North Dakota Office of State Tax Commissioner. A few cities, including Fargo and Grand Forks, administer city lodging taxes themselves and those collections are not included here.

(3) Repealed in 1995.

SOURCE: North Dakota Office of State Tax Commissioner and North Dakota Aeronautics Commission.

Local Sales And Use Taxes
Cities as of January 1, 1998
Amount Remitted 1995-97 Biennium

City	Start Date	Tax FY-1996	Tax FY-1997	Biennium Total
Belfield	4/95	59,775	63,985	123,760
Berthold	1/96	4,489	13,954	18,443
Bismarck	4/86	5,876,097	6,567,930	12,444,027
Bottineau	10/93	190,784	200,256	391,041
Bowman	10/94	125,204	142,483	267,688
Carrington	1/94	184,976	203,291	388,267
Cavalier	10/94	122,583	150,612	273,195
Cooperstown	7/96	0	72,703	72,703
Crosby	1/93	77,837	68,346	146,183
Devils Lake (1)	7/88	840,351	1,106,656	1,947,007
Dickinson	7/90	1,473,098	1,734,588	3,207,686
Edgeley	1/97	0	11,482	11,482
Ellendale	1/95	62,573	71,607	134,179
Fargo (2)	4/89	10,853,273	12,234,893	23,088,166
Garrison	1/96	19,414	100,939	120,353
Grafton	1/91	315,520	353,076	668,596
Grand Forks (3) (5)	1/85	5,553,481	9,753,521	15,307,002
Halliday	7/96	0	8,292	8,292
Harvey	10/91	128,499	140,485	268,984
Hazen	4/95	103,848	120,892	224,740
Hettinger (5)	7/96	0	69,972	69,972
Jamestown	7/91	1,214,623	1,397,358	2,611,981
Kenmare	1/93	70,746	79,301	150,047
Killdeer	4/95	38,996	39,434	78,429
LaMoure	1/97	0	12,528	12,528
Langdon	1/94	151,093	163,070	314,163
Larimore	1/95	47,906	49,530	97,436
Linton	10/93	57,752	65,525	123,278
Lisbon	7/95	115,470	169,481	284,951
Mandan	4/91	944,878	995,834	1,940,712
Mayville	1/97	0	39,434	39,434
McClusky	1/96	4,332	16,430	20,763
Minot (4)	4/86	3,879,291	4,288,052	8,167,343
Mohall	10/92	35, 190	39,088	74,278
Mott	4/97	0	4,235	4,235
Napoleon	10/96	0	22,223	22,223
New Rockford	10/96	0	35,954	35,954
Oakes	10/96	0	55,470	55,470
Park River	1/95	77,700	90,028	167,729
Pembina	1/93	47,992	62,841	110,833
Portland	1/97	0	5,148	5,148
Powers Lake	4/97	0	1,539	1,539
Regent (5)	1/97	0	2,702	2,702
Rolla	1/94	136,791	150,558	287,349
Rugby	1/93	214,152	216,083	430,235
Stanley	10/95	35,595	70,827	106,422
Steele	10/96	0	23,880	23,880
Strasburg	4/93	19,690	21,985	41,676
Tioga	1/95	73,167	118,055	191,223
Valley City	1/92	430,842	507,089	937,931
Wahpeton	7/91	616,519	752,825	1,369,344
West Fargo	10/94	547,404	635,515	1,182,919
Williston	7/91	1,028,647	1,124,173	2,152,820
Wishek	4/97	0	5,441	5,441
Totals		**$ 35,780,576**	**$ 44,451,602**	**$ 80,232,178**

(1) Initial 1 percent tax imposed 7/1/88; additional 1/2 percent imposed 1/1/97.

(2) Initial 1/2 percent tax imposed 4/1/89; additional 1/2 percent imposed 7/1/92.

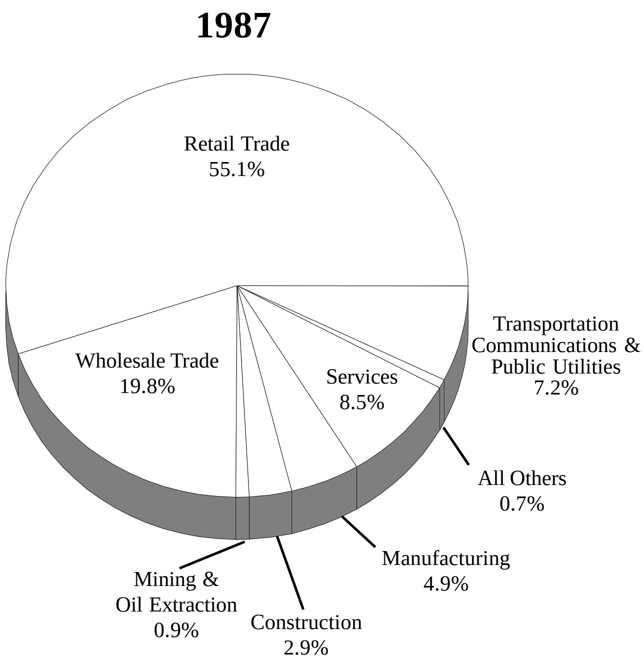
(3) Initial 1 percent imposed 1/1/85; additional 1 percent imposed on sales of prepared food, beverages, on-sale alcoholic beverages, and leasing or renting of hotel, motel, bed and breakfast, or tourist court accommodations; and 3/4 percent on all other taxable sales effective 4/1/96.

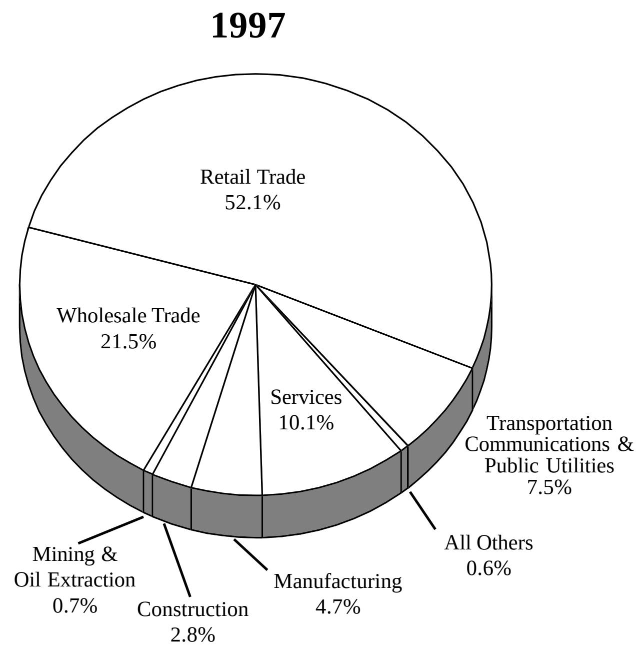
(4) Sales tax imposed 4/1/86; use tax imposed 7/1/90.

(5) Sales tax only (no use tax).

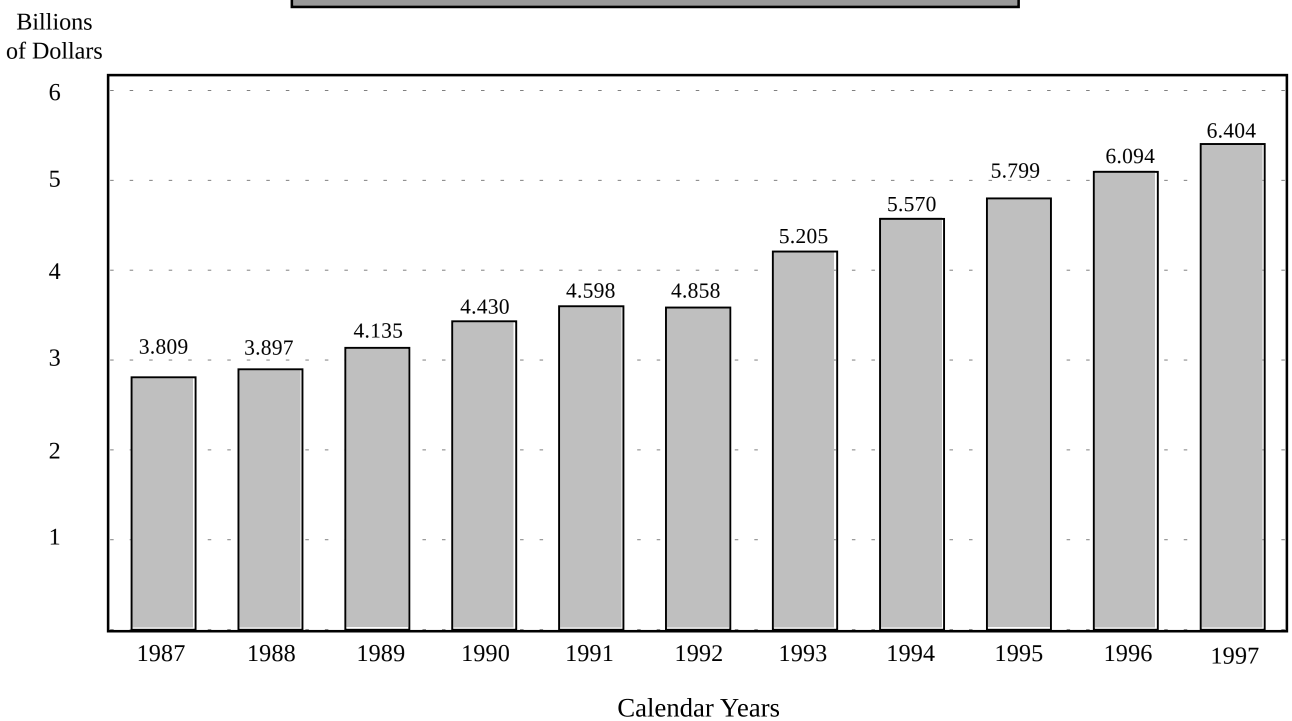
SOURCE: North Dakota Office of State Tax Commissioner.

Taxable Sales and Purchases
Percentage by Business Classification
Calendar Years 1987 and 1997





Trends in Taxable Sales and Purchases



North Dakota Sales and Use Tax Exemptions Estimated Biennial Fiscal Effect *

	Biennial Estimate Low	High
Exempt Products		
Resources		
Gasoline	$48,000,000	$60,000,000
Coal	25,000,000	30,000,000
Electricity	36,000,000	41,000,000
Water Through Mains	1,400,000	2,000,000
Publishing		
Newspapers	$2,500,000	$3,000,000
Magazine Subscriptions	1,200,000	1,500,000
Bibles, Hymnals, Prayerbooks and Textbooks Purchased by Private Schools	Less Than $5,000	
Textbooks Purchased by Students	400,000	500,000
Medical		
Prescription Drugs	$8,800,000	$12,825,000
Oxygen and Anesthesia Gases	50,000	80,000
Artificial Devices (Hearing Aids, Eyeglasses, Limbs)	1,100,000	1,900,000
Ostomy Devices and Supplies	50,000	80,000
Diabetic & Bladder Dysfunction Supplies	250,000	350,000
Equipment to Modify Articles for Disabled	20,000	40,000
Sales to Hospitals and Nursing Homes	6,250,000	7,250,000
Agricultural		
Commercial Fertilizer (For Ag Purposes)	$15,000,000	$19,000,000
Livestock and Poultry Feed	13,500,000	18,000,000
Seeds for Planting	10,500,000	13,500,000
Fungicides, Herbicides, and Insecticides	14,500,000	19,000,000
Other		
Money	250,000	350,000
Grocery Foods	60,000,000	70,000,000
Exempt Products Total	**$244,770,000**	**$300,375,000**
Miscellaneous Exemptions		
Rental of Hotel and Motel Accomodations	$190,000	$290,000
Film Rental (Movie Theater)	400,000	500,000
Sales to Residents of Montana	3,000,000	4,000,000
Sales to Residents of Canada (Refund)	2,000,000	3,000,000
State and Local Fairs	100,000	175,000
Private and Parochial Schools	500,000	700,000
Inter-State Telephone	4,000,000	6,000,000
Cable Television	3,000,000	4,000,000
Auctions	3,000,000	4,000,000
Manufacturing & Recycling Equipment	4,000,000	8,000,000
Miscellaneous Exemptions Total	**$20,190,000**	**$30,665,000**

	Biennial Estimate Low	High
Exempt Services		
Veterinary Services	$1,500,000	$2,000,000
Financial Services	3,250,000	5,500,000
Oil and Gas Field Services	7,000,000	12,000,000
Construction	15,000,000	24,000,000
Funeral Services	2,000,000	3,000,000
Miscellaneous Personal Services	600,000	700,000
Farm Machinery Repair	1,000,000	2,000,000
Transportation Services	200,000	400,000
Lawn Care Services	600,000	800,000
Engineering, Architecture, and Surveying	700,000	1,300,000
Health Services	60,000,000	80,000,000
Laundry, Dry Cleaning Service	1,200,000	2,000,000
Beauty and Barber Shops	3,000,000	4,000,000
Automotive Repair	8,000,000	12,500,000
Miscellaneous Repair	3,500,000	5,500,000
Accounting, Auditing and Bookkeeping	3,200,000	4,200,000
Business Services	6,000,000	7,000,000
Legal Services	7,000,000	9,000,000
Exempt Services Total	**$123,750,000**	**$175,900,000**
Grand Total All Exemptions	***$388,710,000***	***$506,940,000***
Partial Exemptions (fiscal effect is computed at 2%)		
Farm Machinery and Repair Parts	$13,000,000	$17,000,000
New Mobile Homes	300,000	500,000
Total Partial Exemptions	**$13,300,000**	**$17,500,000**

* Calculations are based on 5% state sales and use tax rate. All amounts are preliminary and subject to change as additional information becomes available.

SOURCE: North Dakota Office of State Tax Commissioner, Research Section, 1998.

Biennial Filing Deductions

Sales Taxes **$ 3,400,000**

Businesses with taxable sales and purchases of $333,000 or more per year receive compensation of up to $85 per month for filing monthly returns.

Cigarette Tax **$ 60,000**

Wholesalers who file and pay on time may deduct up to $100 per month. This deduction was originally to compensate for stamping cigarette packages. In 1991 the stamping requirement was repealed, but the compensation remains.

SOURCE: North Dakota Office of State Tax Commissioner, Sales and Special Taxes Division, 1998.

STATE COMPARISONS

There are 15 states with general state sales tax rates lower than North Dakota's 5% rate. However, in comparing North Dakota's sales tax to other states, one must also consider the tax base, the goods and services subject to the tax, as well as the level of local sales taxes.

Tax Base. Does a state include groceries, electricity, prescription drugs, and services such as legal, business, accounting, architecture, lawn care, etc.?

In an effort to lessen the impact of taxes on a family's ability to buy necessities, North Dakota exempts groceries, residential electricity, and a few other essentials. States can also make a sales tax somewhat more progressive by taxing goods or services used mostly by upper income purchasers. The charts on the next few pages detail specific items taxed in each state.

Local Sales Taxes. In addition to a general state sales tax, most states allow local subdivisions to levy a sales tax as well. In some cases (Colorado, for example), the local rate may actually be higher than the state rate. As of January 1998, the rate in most North Dakota cities that levy a city sales tax was 1% and applied only to the first $2,500 worth of items in a given purchase.

Example. A comparison of sales taxes in North Dakota and South Dakota provides a good example of the impact of different tax bases and local taxes. Because more goods and services are taxed in South Dakota, that state's 4% state sales tax rate generally results in a higher tax payment than North Dakota's 5% rate.

State Sales Tax Rates Comparison with the Other 46 States (and D.C.) That Levy a Sales Tax

July 1, 1998

	Number of States		
	Rates Lower Than N.D.	Rates the Same As N.D.	Rates Higher Than N.D.
Other States' Rates Compared to N.D.'s	15	11	20

Note: North Dakota taxes only 21 services and does not tax groceries or electricity.

Total Sales and Gross Receipts Tax Collections Per Capita Fiscal Year 1997

Rank	State	Per Capita Total Sales and Gross Receipts Taxes
1	Hawaii	$1,623
2	Nevada	1,551
3	Washington	1,478
4	Connecticut	1,274
5	Florida	1,097
6	New Mexico	1,044
7	Minnesota	1,019
8	Mississippi	976
9	Tennessee	948
10	Texas	947
11	NORTH DAKOTA	946
12	Michigan	908
13	New Jersey	893
14	Arizona	835
15	West Virginia	834
16	South Dakota	826
17	Rhode Island	824
18	Wisconsin	818
19	Kentucky	817
20	Arkansas	800
21	California	782
22	Iowa	781
23	Maine	777
24	Kansas	773
25	Nebraska	773
26	Pennsylvania	767
27	Utah	767
28	Idaho	764
29	Illinois	739
30	South Carolina	727
31	North Carolina	727
32	Maryland	725
33	Ohio	720
34	Indiana	705
35	Vermont	695
36	Massachusetts	689
37	Missouri	685
38	New York	669
39	Alabama	664
40	Georgia	655
41	Louisiana	634
42	Wyoming	587
43	Oklahoma	585
44	Colorado	560
45	Virginia	559
46	New Hampshire	391
47	Delaware	346
48	Montana	296
49	Oregon	208
50	Alaska	158
	US Average	$808

* Total Sales and Gross Receipts Taxes includes taxes on alcoholic beverages, amusements, insurance premiums, motor fuels, parimutuels, public utilities, tobacco products and other selective sales.

SOURCE: US Dept. of Commerce, Census Bureau.

General Sales and Gross Receipts Tax Collections Per Capita Fiscal Year 1997

Rank	State	Per Capita General Sales and Gross Receipts Taxes
1	Hawaii	$1,228
2	Washington	1,172
3	Nevada	1,013
4	Florida	824
5	Connecticut	795
6	New Mexico	778
7	Michigan	730
8	Tennessee	715
9	Mississippi	702
10	Minnesota	665
11	Arizona	627
12	California	619
13	Utah	614
14	Texas	584
15	Kansas	569
16	Arkansas	567
17	South Dakota	557
18	Wisconsin	554
19	Maine	550
20	New Jersey	548
21	South Carolina	540
22	Iowa	526
23	Georgia	523
24	Nebraska	522
25	Indiana	519
26	Idaho	514
27	Pennsylvania	504
28	Rhode Island	496
29	NORTH DAKOTA	486
30	Kentucky	482
31	Missouri	480
32	Massachusetts	470
33	Ohio	468
34	West Virginia	458
35	Wyoming	448
36	Illinois	445
37	North Carolina	422
38	Louisiana	420
39	Maryland	411
40	New York	405
41	Oklahoma	384
42	Colorado	363
43	Alabama	349
44	Virginia	315
45	Vermont	312
46	Oregon	n/a
47	Delaware	n/a
48	Alaska	n/a
49	Montana	n/a
50	New Hampshirw	n/a
	US Average	$551

SOURCE: US Dept. of Commerce, Census Bureau.

Comparison of State Sales Tax Rates

Tax Rates in Effect July 1, 1998

States	General State Rate	Highest Local Rate	Grocery Foods	(12) Restaurant	(12) Lodging	Electricity (non-mfg. use)	Natural Gas (non-mfg. use)	Water (Utilities)	(13) Taxable Services of 164	DIRECT MANUFACTURING USE Consumables	Natural Gas	Electricity	Machinery
Alabama	4.0%	5.0% (4)	4.0%	4.0%	5.0%	4.0% (6)	4.0% (6)	4.0% (6)	32	4.0%	4.0% (21)	4.0% (21)	1.5%
Alaska	0.0%	7.0%							1				
Arizona	5.0%	4.25%		5.0%	5.5%	5.0% (6)	5.0% (6)	5.0% (6)	57	5.0%	5.0%	5.0%	
Arkansas	4.625%	See (5) note	4.625%	4.625%	4.625%	4.625%	4.625%	4.625%	65	4.625% (14)	4.625% (14)	4.625% (14)	
California	6.0%	1.25% (5)		7.25%		(6)			13				(15)
Colorado	3.0%	4.0%		3.0%	3.0%	3.0% (7)	3.0% (7)		14	3.0%			3.0% (26)
Connecticut	6.0%			6.0%	12.0%	6.0% (7) (8)	6.0% (7) (8)	6.0% (7) (8)	87	6.0% (16)			
District of Columbia	5.75%			10.0%	13.0%	5.75% (6)	5.75% (6)		63	5.75%			5.75%
Delaware	0.0% (1)				8.0%				142				
Florida	6.0%	1.5%			6.0%	6.0% (7)	6.0% (7)		64	6.0% (17)		6.0%	6.0% (15)
Georgia	4.0%	3.0%		4.0%	4.0%	7.0%	7.0%		34	4.0%	4.0%	4.0%	4.0%
Hawaii	4.0%		4.0%	4.0%	10.0%	8.2% (6)	8.2% (6)	8.2% (6)	157	4.0%	4.0%	4.0%	4.0%
Idaho	5.0%		5.0%	5.0%	7.0%				29				
Illinois	6.25%	2.5%	2.0%	6.25%	6.25%	6.25% (6)	6.25% (6)		17	6.25%	6.25%	6.25%	
Indiana	5.0%			5.0%	5.0%	5.0%	5.0%	5.0%	22				
Iowa	5.0%	1.0%		5.0%	5.0%	5.0%	5.0%	5.0%	94				
Kansas	4.9%	2.0%	4.9%	4.9%	4.9%	4.9% (7) (8)	4.9% (7) (8)	4.9% (7) (8)	76		4.9%	4.9%	
Kentucky	6.0%			6.0%	6.0%	6.0% (7)	6.0% (7)	6.0% (7)	26		6.0% (22)	6.0% (22)	(15)
Louisiana	4.0%	5.5%	4.0%	4.0%	4.0%	3.0%	3.0%	3.0%	58	3.0%	3.0%	3.0%	3.0%
Maine	6.0%			7.0%	7.0%	6.0%	6.0% (7)	6.0% (7)	27	(18)			
Maryland	5.0%			5.0%	5.0%	5.0% (7)	5.0% (7)	5.0% (7)	39	(18)			(27)
Massachusetts	5.0%			5.0%	7.5%	5.0% (7)	5.0% (7)	5.0% (7)	20		5.0% (23)	5.0% (23)	5.0%
Michigan	6.0%			6.0%	6.0%	6.0% (9)	6.0% (9)		29	(19)			
Minnesota	6.5%	1.0%		6.5%	6.5%	6.5% (7) (8)	6.5% (7) (8)	6.5% (7)	61	6.5%			(15)
Mississippi	7.0%	3.0%	7.0%	7.0%	7.0%	7.0% (7)	7.0% (7)	7.0% (7)	70	7.0% (20)	7.0%	7.0%	7.0%
Missouri	4.225%	3.5%		4.225%	4.225%	4.225% (7)	4.225% (7)	4.225% (7)	28	4.225%	4.225%	4.225% (25)	(15)
Montana	0.0%				4.0%				19				
Nebraska	4.5%	1.5%		4.5%	4.5%	4.5%	4.5%	4.5% (11)	49	5.0%	5.0% (24)	5.0% (24)	5.0%
Nevada	6.5% (3)			6.5%		6.5% (7)	6.5% (7)	6.5%	11				6.5%
New Hampshire	0.0%			8.0%	8.0%				11				
New Jersey	6.0%			6.0%	6.0%	6.0%	6.0%		50	6.0%	6.0%	6.0%	
New Mexico	5.0%	1.875%		5.0%	5.0%	5.0%	5.0%	5.0%	152	5.0%	5.0%	5.0%	5.0%
New York	4.0%	4.5%		4.0%	4.0%	4.0% (7)	4.0% (7)		74				
North Carolina	6.0%		4.0%	4.0%	4.0%	1.0%	1.0%	1.0%	28	1.0%	2.83%	2.83%	1.0% (28)
NORTH DAKOTA	5.0%	2.0%		5.0%	5.0%		2.0%		25	5.0%	2.0%		(15)
Ohio	5.0%	2.0%		5.0%	5.0%				52				
Oklahoma	4.5%	5.0%	4.5%	4.5%	4.5%	4.5% (7)	4.5% (7)		32				
Oregon	0.0%								0				
Pennsylvania	6.0%	1.0%		6.0%	6.0%	6.0% (7)	6.0% (7)	6.0% (7)	61				
Rhode Island	7.0%			7.0%	12.0%	7.0% (7)	7.0% (7)	7.0% (7)	28	(18)			
South Carolina	5.0%	1.0%	5.0%	5.0%	7.0%	5.0% (7)	5.0% (7)	5.0% (7)	32	(19)			
South Dakota	4.0%	2.0%	4.0%	4.0%	4.0%	4.0%	4.0% (8)	4.0% (7)	141	4.0%	4.0%	4.0%	4.0%
Tennessee	6.0%	2.75%	6.0%	6.0%	6.0%	Varies (10)	Varies (10)	6.0%	71		1.5%	1.5%	
Texas	6.25%	2.0%		6.25%	6.0%	6.25% (7)	6.25% (7)		78				
Utah	4.75%	1.25%	5.0%	1.0%	3.0%	2.0%	2.0%		54	6.0%			(15)
Vermont	5.0%			9.0%	9.0%	5.0% (7)	5.0% (7)	5.0%	23		5.0%	5.0%	
Virginia	4.5%		4.5%	4.5%	4.5%				18				
Washington	6.5%	1.7%		6.5%	6.5%	3.873% (6)	3.852% (6)	5.029% (6)	152	6.5%	3.852%	3.873%	(29)
West Virginia	6.0%		6.0%	6.0%	6.0%				110	6.0%			
Wisconsin	5.0%	.75%	5.0%	5.0%	5.0%	5.0% (7) (8)	5.0% (7) (8)	5.0%	69				
Wyoming	4.0%	2.0%	4.0%	4.0%	4.0%	4.0% (8)	4.0% (8)		63	4.0%			4.0%

Comparison of State Sales Tax Rates - - - Footnotes

(1) Delaware levies a "gross receipts" tax of 0.4% on most forms of business activity, including services, the incidence of which is on the business rather than on the consumer.

(2) Nevada has three taxes that are levied statewide: a 2% state sales and use tax; a 2.25% local school support tax; and a 2.25% city-county relief tax.

(3) Highest rate for local taxes collected by the Alabama Department of Revenue.

(4) 3% city, 2% county.

(5) The 1.25% is a statewide local tax that is allocated back to cities and counties. Some areas levy an additional local tax.

(6) In some states the tax is called a "utility tax" rather than a sales tax. In California the tax is an energy resources surcharge paid by consumers. In the District of Columbia, the tax is a gross receipts tax.

(7) Residential use is exempt. (In Minnesota and Wisconsin home use of electricity and natural gas is exempt only during winter months.)

(8) Agricultural use is exempt. (In Wisconsin, farm use is exempt only during winter months.)

(9) In Michigan, the tax rate is 4% on electricity and natural gas used for home heating.

(10) Residential use is exempt, commercial is 6.0%, industrial is 1.5%.

(11) Industrial use is exempt.

(12) In some states, restaurants and lodging are subject to the general sales tax rate or a higher sales tax rate. Other states may levy a special "restaurant," "lodging" or "accommodations" tax rather than or in addition to the general sales tax. The table shows the total of these state tax rates. Local tax rates are not included.

(13) The number of taxable services is out of a possible 164 services covered in the study, "Sales Taxation of Services," Federation of Tax Administrators, 1996.

(14) Exempt if used by steel mills or glass manufacturing companies.

(15) The exemption is generally for machinery and equipment used for new or expanding production. States have different definitions and qualifications.

(16) Materials and tools which are used in the actual fabrication of a product for sale, in an agricultural production process, or in the fishing industry are exempt.

(17) Plus a 2.5% gross receipts tax.

(18) Exempt if consumed within 1 year.

(19) Exempt when used in actual production process.

(20) Manufactured process gases are exempt.

(21) Exempt if separate metered and used in electrolytic process manufacturing.

(22) Amounts over 3% of production costs are exempt.

(23) Exempt for business qualifying for "small business" status.

(24) Exempt if more than 50% is used in manufacturing.

(25) May apply for exemption, if electricity cost is greater than 10% of production costs.

(26) Must have direct action on raw material. Items of $500 or more are exempt.

(27) Must be capitalized and depreciated.

(28) If used directly in manufacturing, tax is 1% up to a maximum of $80 tax per article.

(29) There is a manufacturing exemption for machinery for 1 year or more if it meets certain requirements.

SOURCE: Survey of states conducted by North Dakota Office of State Tax Commissioner, Sales Tax Section, July 1998.

Sales Tax Comparison of Surrounding States and Provinces (1)

Laws in Effect July 1, 1998

	NORTH DAKOTA	SOUTH DAKOTA	WYOMING	MINNESOTA	IOWA	(2) MANITOBA	(2) SASKATCHEWAN
GENERAL STATE RATE	5%	4%	4%	6.5%	5%	7%	7%
MAXIMUM LOCAL RATE	2%	2%	2%	1%	1%		
PRODUCTS							
Motor Vehicles (sales or excise tax)	5%	3%	4%	6.5%	5%	7%	7%
Natural Gas (sales or utility tax)	2%	4% (3)	4% (4)	6.5% (5)	5% (6)	7%	
Electricity		4%	4% (4)	6.5% (5)	5% (6)		7% (7)
Coal	5% (8)	4%	4% (4)	6.5% (5)	5%	7%	
City and Rural Water		4% (9)		6.5% (9)	5%		
Newspapers (retail & subscriptions)		4%			7%		
Magazines (retail)	5%	4%	4%	6.5%	5%	7%	
Magazines (subscriptions)		4%			5%	7%	
Bibles/Textbooks to Religious Groups		4%				7%	
Prescription Drugs							
Agricultural Supplies							(10)
Farm Machinery	3%	3%	3%	2% (11)			
Farm Machinery Parts	3%	4%	4%	(12)			
Alcoholic Beverages	7%	4%	4%	6.5% or 9% (13)	5%	7%	7%
Money (gold & silver coins)		4%	4% (14)	6.5%	5%		7% (15)
Mobile Homes - - New	3%	3%	4%	6.5% (16)	5% (17)	7% (18)	3.5%
Mobile Homes - - Used		3%	4% (19)		(20)	7% (18)	
Grocery Foods		4%	4%				
Restaurant	5%	4%	4%	6.5%	5%	7%	
MISCELLANEOUS							
Hotel & Motel Accommodation Rental	5% (21)	4%	4%	6.5%	5% (21)	7%	7%
Film Rental to Theaters & TV Stations		4% (22)	4%			7%	
Film Rentals (other than to theatres/TV)	5%	4%	4%	6.5%	5%	7%	7%
State/Local Fairs Admission				6.5%	5% (23)		
Inter-State Telephone				6.5%		7%	7%
Cable Television		4%		6.5%	5%	7%	7%
Receipts from Vending Machines	5%	4%	4% (24)	6.5%	5%	7%	7% (25)
Sales to Private and Parochial Schools			4% (26)			7%	7%
Sales to Hospitals		4% (27)	4% (26)	6.5% (27)	5%	7%	7%
Sales to Nursing Homes		4%	4% (26)	6.5% (27)	5%	7%	7%
SERVICES (28)							
Number of Taxable Services (29)	21	130	64	61	95	N/A	N/A
Veterinary Services							
Financial Services		4% (30)			5%		
Oil & Gas Field Services (non-materials)		3% (31)	4%				
Construction (non-materials)		2% (32)					
Funeral Services		4%					
Miscellaneous Personal Services		4% (33)			5%		
Transportation Services		4% (34)	4% (34)		4% (34)		
Lawn Care Services		4%		6.5%	5%		
Engineering, Architecture & Surveying		4%					
Health Services							
Laundry & Dry Cleaning Service		4%	4%	6.5%	5%		
Beauty and Barber Shops		4%			5%		
Farm Machinery Repair		4%	4%		5%		
Automotive Repair		4%	4%		5%	7%	
Miscellaneous Repair		4%	4%		5%		
Accounting, Auditing & Bookkeeping		4%					
Business Services (consulting, etc.)		4% (35)			5% (36)		
Legal Services		4%					
COMPENSATION TO RETAILERS	Yes (37)	No	No	No	No	Yes (37)	Yes (37)

Sales Tax Comparison of Surrounding States and Provinces
Footnotes

(1) Figures do not include local sales tax. Montana does not levy a sales tax.

(2) Canada also levies a federal goods and services tax (GST) of 7%.

(3) Exempt for agricultural uses.

(4) Exempt if used directly in manufacturing, processing, or agricultural.

(5) Exempt for agriculture and industrial production of personal property and exempt for residential use during the winter months.

(6) Exempt if used in manufacturing.

(7) Residential and manufacturing use is exempt.

(8) Coal mined in North Dakota is subject to severance tax and is exempt from sales tax. Coal mined outside North Dakota and coal used for heating buildings is subject to sales tax.

(9) Residential water bills are exempt.

(10) Exempt if primary function is for agriculture; multi use products are taxable.

(11) Includes barn cleaning systems, grain dryers, milking systems and automatic feeding systems. (Previously these were considered installations into real property and subject to higher rate.) By July 1, 2000, new farm machinery will be exempt. Used machinery is not taxed.

(12) Sales of farm machinery parts (except tires), if used on machinery that qualifies for 2% rate, are exempt.

(13) 3.2 beer bars - 6.5%. Additional 2.5% on hard liquor, wine and over 3.2 beer.

(14) Taxable if coins can not be used as legal tender.

(15) Taxable if sold above face value.

(16) 65% of dealer's cost of new mobile homes is taxed at 6.5% (effective rate is 4.225%).

(17) 60% of the purchase price is subject to a use tax.

(18) Purchaser may apply for 45% refund of tax on non-furnishing items. Must itemize furnishings.

(19) Sales of used mobile homes that are sold attached to real property and have previously been subject to sales tax are exempt.

(20) Sales of used mobile homes are exempt if they have been taxed before.

(21) Rooms rented by and for same individual are exempt if rented 30 consecutive days (in North Dakota) or 31 consecutive days (in Iowa).

(22) Motion picture rentals to movie theatres are exempt.

(23) State fair admission is taxable.

(24) Tangible property from a machine is taxable. Other types of machines, such as juke boxes, are exempt.

(25) Vending machine receipts for taxable items are taxable. Pop and candy are not taxable items.

(26) Sales to schools, hospitals or nursing homes considered charitable or religious by Wyoming are exempt.

(27) Any licensed health care facility or a health care professional can purchase goods used in the treatment of a patient tax free. However, only a hospital can purchase medical equipment tax free.

(28) As a rule, items sold by a service provider, such as caskets sold by a funeral home, are considered a retail sale and therefore subject to the general sales tax.

(29) The number of taxable services in the study "Sales Taxation of Services," Federation of Tax Administrators, 1992.

(30) Real estate commissions are taxable; other financial services are exempt.

(31) Activities listed under SIC Industry Group #138 are taxable at 3%.

(32) 2% on prime contract.

(33) Most membership fees are exempt.

(34) Limo services are taxable. Also, intra-state trucking fees are taxable in South Dakota.

(35) Media advertising is exempt; consulting is taxable.

(36) Investment counseling is taxable at 5%.

(37) Maximum compensation to retailer in North Dakota is $85 per monthly return ($1,020 per year), in Manitoba $200 per return, and in Saskatchewan $1,800 a year.

SOURCE: Survey of states conducted by North Dakota Office of State Tax Commissioner, Sales Tax Section, July 1998.

OIL AND GAS TAXES

CURRENT LAW

OIL AND GAS GROSS PRODUCTION TAX

Imposition and Rates

The oil and gas gross production tax is imposed in lieu of property taxes on oil and gas producing properties.

Oil. A 5% rate is applied to the gross value at the well of all oil produced, except royalty interest in oil produced from a state, federal or municipal holding and from an American Indian holding within the boundary of a reservation. Both the producer and the purchaser of the oil are required to submit reports to the North Dakota Tax Department on a monthly basis. The reports show the volume and taxable value of the production from each well. The producer remits the tax on oil not sold at the well. The purchaser is primarily responsible for remitting the tax when the oil is bought during a production.

Gas. The gross production tax on gas is an annually adjusted flat rate per mcf of all nonexempt gas produced in the state. The annual adjustments are made according to the average producer price index for gas fuels. Rates through June 30, 1998 are as follows:

Time Period	Tax Rate
July 1, 1993 - June 30, 1994	$.0401
July 1, 1994 - June 30, 1995	$.0415
July 1, 1995 - June 30, 1996	$.0385
July 1, 1996 - June 30, 1997	$.0345
July 1, 1997 - June 30, 1998	$.0467

Exempt from the tax is gas used on the lease for production purposes and the royalty interest in gas produced from a state, federal or municipal holding and from an American Indian holding within the boundary of a reservation.

Monthly reports to the North Dakota Tax Department are required from both the producer and the purchaser/ processor of the gas. The reports show the volume produced from each well. The producer remits the tax on unprocessed gas and the purchaser/processor remits the tax on processed gas.

Distribution of Revenue

Revenue from the gross production tax is distributed under the following formula:

- One-fifth is deposited with the State Treasurer. Of this portion, 33 1/3% is allocated to the Oil and Gas Impact Grant Fund, up to a maximum of $5 million per biennium. The remainder of this portion is credited to the State General Fund.

- Four-fifths is allocated between the State General Fund and the producing county according to the following formula:

Revenue	County	State
Up to $1 million	75%	25%
$1 to $2 million	50%	50%
Over $2 million	25%	75%

However, the amount any one county can receive per fiscal year is limited according to population as follows:

Population	Maximum Distribution
Up to 3,000	$ 3.9 million
3,000 to 6,000	4.1 million
6,000 or more	4.6 million

Tax revenue distributed to a county is further split with 45% earmarked for the county general fund, 35% for the school districts within the county, and 20% to incorporated cities within the county.

Reference: North Dakota Century Code ch. 57-51.

OIL EXTRACTION TAX

Imposition and Rates

The oil extraction tax is levied on the extraction of oil from the earth. The tax rate is 6½% of the gross value at the well of crude oil. However, the rate is reduced to 4% for oil produced from the following:

- A vertical or horizontal new well, after the appropriate exemption expires.

- A well which received the workover exemption after June 30, 1993.
- Incremental oil from a qualifying secondary or tertiary recovery project, after the 5-year or 10-year exemption expires.
- Nonincremental oil from a qualifying secondary recovery project that has reached an average production level of at least 25% over normal operations for six consecutive months.
- Nonincremental oil from a qualifying tertiary recovery project that has reached a production level of at least 15% over normal operations for one month and continues to be operated as a qualifying project.

A qualifying *secondary recovery project* is a unit that uses water flooding and is certified by the North Dakota Industrial Commission. A qualifying *tertiary recovery project* is a unit that uses an enhanced recovery method which conforms with federal tax code provisions and is certified by the North Dakota Industrial Commission.

The oil extraction tax is paid monthly with the gross production tax on a combined reporting form.

Exemptions

To receive the full benefit of an exemption or the 4% reduced rate, a producer must file the Industrial Commission's certification of well status with the Tax Commissioner within 18 months of the first day of eligibility. If the producer does not file within the 18-month period, then the exemption or reduced rate begins the first day of the month in which the certification is received by the Commissioner. This requirement becomes effective on January 1, 1996.

The exemptions to the oil extraction tax are as follows:

- Royalty interest in oil extracted from a state, federal or municipal holding and from an American Indian holding within the boundary of a reservation.
- Oil extracted from a certified stripper well property. A stripper well property is property whose average daily production during a 12-month period did not exceed 10 barrels per day for a well of a depth of 6,000 feet or less, 15 barrels per day for a well of a depth of more than 6,000 feet but not more than 10,000 feet, and 30 barrels per day for a well of a depth of more than 10,000 feet.
- Oil produced during the first 15 months of production from either a vertical new well (drilled and completed after April 27, 1987) or a horizontal new well (drilled and completed after April 27, 1987 and before April 1, 1995). This exemption is subject to the "trigger" provisions described below.
- Oil produced during the first 24 months of production from a horizontal well drilled and completed after March 31, 1995. The exemption is subject to the "trigger" provisions described below.
- Oil produced during the first 60 months of production from either a vertical new well or a horizontal new well drilled and completed on tribal trust land after July 31, 1997.
- Oil produced from a horizontal reentry well for a period of 9 months beginning on the date the well is recompleted as a horizontal well. The exemption is subject to the "trigger provisions" described below.
- Oil produced from a two-year inactive well for a period of ten years beginning the first day of the month in which the Industrial Commission's certification is received by the Tax Commissioner. The exemption is subject to the "trigger provisions" described below.
- Oil produced from a qualifying well that has been worked over. The exemption is for a 12-month period starting with the first day of the third month after completion of the workover project. A qualifying well is a well that has produced less than 50 barrels per day during the last six months of continuous production before workover. The well operator must notify the Industrial Commission before beginning the project. Project cost must exceed $65,000 or production must increase 50% or more in the first two months after project completion. The exemption is subject to the "trigger" provisions described below.
- Incremental oil from a qualifying secondary or tertiary recovery project. The exemption is 5 years for secondary recovery projects and 10 years for tertiary recovery projects from the date the incremental production begins.

"Trigger" Provisions

The reduced rate provisions and/or exemptions for new wells, horizontal wells, horizontal reentry wells, two-year inactive wells, and workover wells are ineffective if the average price of a barrel of crude oil for any consecutive 5-month period is $33 or more. The reduced rate and the exemptions are reinstated if the average price falls below $33 a barrel.

Distribution of Revenue

Revenue from the oil extraction tax is distributed as follows:

- 60% to the State General Fund.
- 20% divided equally between the Common Schools Trust Fund and Foundation Aid Stabilization Fund.
- 20% to the Southwest Water Pipeline Sinking Fund and to a Resources Trust Fund. Principal and income from the Resources Trust Fund may be expended only pursuant to legislative appropriation and are available for water and certain energy related projects.

Reference: North Dakota Century Code ch. 57-51.1.

HISTORICAL OVERVIEW

OIL AND GAS GROSS PRODUCTION TAX

Significant Changes In Law

1953 Session. The legislature enacted the gross production tax at a rate of 4¼% of gross value at the well and created a revenue distribution formula.

1957 Session. The rate was increased from 4¼% to 5% and the revenue distribution formula was adjusted (see chart on page 55).

1981 Session. The legislature amended the revenue distribution formula (see chart on page 55).

1983 Session. The legislature required monthly rather than quarterly remittance, and raised the maximum distributions to the counties (see chart on page 55).

1985 Session. The legislature specified that oil reclaimed from tank bottoms and pit oil material has value for tax purposes only if a cash price is paid by the oil reclaimer.

1989 Session. The law was changed to specifically state that the gross production tax is a real property tax. The revenue distribution formula was amended, effective July 1, 1991, to allocate 33 1/3 % of the first one-fifth portion to the Oil and Gas Impact Grant Fund.

1991 Session. The tax on gas was changed from 5% of gross value to an annually adjusted flat rate per mcf. Procedures were provided for determining gross value at the well of oil under arm's length and non-arm's length contracts. The legislature approved administrative changes recommended by a special Taxpayer Bill of Rights project involving the private sector and the North Dakota Office of State Tax Commissioner, including a 10% per annum interest rate on refunds and reducing the assessment and refund period from six to three years.

1993 Session. The interest accrual period was changed on tax refunds for periods after June 30, 1993. Interest begins to accrue 60 days after the due date of the return, after the return was filed, or after the tax was fully paid, whichever occurs later. The legislature also specified that tax from undetermined sources will be allocated between the State General Fund and the county that received the least amount of revenue during the fiscal year.

1997 Session. The legislature has clarified that the periods for assessment or refund run from the later of the due date of the original return or the date the original return was filed. The legislature also specified that the North Dakota Office of State Tax Commissioner has two years after an amended return is filed to audit that return and assess any additional tax that is due. The legislature has provided the North Dakota Office of State Tax Commissioner the authority to require purchasers to file monthly reports by electronic data interchange or other form of electronic media and to waive the producer's requirement to file a monthly return. The legislature authorized the use of alternative methods for signing, subscribing, or verifying a return filed by electronic means, including telecommunications. A permanent oil tax trust fund was established for the deposit of oil extraction and gross production tax revenues which exceed specific amounts in a biennium.

OIL EXTRACTION TAX

Significant Changes in Law

1980 Initiated Measure. The 6½% oil extraction tax was created through an initiated measure passed by the voters in the 1980 General Election. The revenue distribution formula was: 45% to the State General Fund, 45% to schools, and 10% to the trust fund. The measure also included an individual income tax energy cost relief credit.

1981 Session. The legislature amended the distribution formula (see chart on page 55).

1983 Session. The distribution formula was changed (see chart on page 55). Filing requirements were changed from a quarterly to a monthly basis.

1987 Session. The legislature provided an exemption for the first 15 months of production from a new well (drilled and completed after April 27, 1987). The rate was reduced from 6½% to 4% for a new well after the 15-month exemption and for production from a qualifying secondary or tertiary recovery project well. These incentives would be eliminated if the average crude oil price is $33 or more per barrel. The legislature repealed the exemption for private royalty interest and expanded the stripper well definition to allow more marginal wells to qualify for an exemption.

1989 Session. The legislature provided a 12-month exemption for production from a qualifying well after completion of a workover project. This incentive is subject to the "trigger."

1991 Session. An exemption was created for incremental oil from a qualifying secondary or tertiary recovery project. A June 30, 1995 sunset was placed on certification of secondary projects. After the expiration of the exempt period, the incremental oil would be eligible for the 4% reduced rate. The reduced rate incentive is subject to the "trigger." The "trigger" was amended to reinstate the reduced rates and exemptions if the average crude oil price falls below $33 per barrel.

1993 Session. The workover exemption was amended to eliminate the $30,000 minimum project cost requirement and a 4% reduced rate was adopted for oil produced from wells which receive the workover exemption after June 30, 1993.

1995 Session. The stripper well definition was broadened from 20 to 30 barrels per day for wells over 10,000 feet deep. The exemption for a horizontal new well was increased from 15 to 24 months and a 9-month exemption was created for a horizontal reentry well. A 10-year exemption was created for oil from a two-year inactive well. To get the full benefit of an exemption or the 4% reduced rate, producers were given an 18-month period to file the Industrial Commission's certification of well status with the Office of State Tax Commissioner. For secondary recovery projects, the sunset for certification was removed. The revenue distribution formula was changed as shown in the chart below.

1997 Session. A 60-month exemption was created for production from a well drilled and completed on an Indian reservation or on tribal trust land after July 31, 1997. The legislature amended previous legislation to keep the current distribution factors at the current percentages (see chart on following page).

Oil and Gas Taxes Distribution Formula Changes

Gross Production Tax

		State		Counties					Maximum County Amount		
	Increments	General Fund	Oil & Gas Impact Grant Fund	Total County %	Cities	School Districts	Road and Bridge Fund	General Fund	County Population Under 3,000	3,000 to 6,000	Over 6,000
1957 Session	First 1/5:	100%									
	Remaining 4/5:										
	1st $200,000	25%		75%	15%	45%	40%				
	2nd $200,000	50%		50%	15%	45%	40%				
	3rd $400,000	75%		25%	15%	45%	40%				
1981 Session	First 1/5:	100% (1)									
	Remaining 4/5:									FY-1982	
	1st $ Million	25%		75%	20%	35%		45%	$3.2 M	$3.5 M	$4.0 M
	2nd $ Million	50%		50%	20%	35%		45%		FY-1983	
	Over $2 Million	75%		25%	20%	35%		45%	$3.8 M	$4.0 M	$4.5 M
1983 Session									$3.9 M	$4.1 M	$4.6 M
1989 Session	First 1/5:	66 2/3%	33 1/3% (2)								

(1) For the 1981-83 biennium only, the legislature provided that up to $32 million of the 1/5 State General Fund share be distributed to the Highway Tax Distribution Fund and to township road and bridge funds.

(2) Up to a maximum of $5 million per biennium. The remainder is deposited in the State General Fund.

Oil Extraction Tax

	State General Fund	Education Funds	Water Pipeline & Trust Fund
1980 Measure #6	45%	45%	10%
1981 Session	30%	60%	10%
1983 Session	90%		10%
1995 Session:			
FY 1996 and 1997	60%	20%	20%
After FY 1997	70%	20%	10%
1997 Session:			
After FY 1997	60%	20%	20%

Distribution of Gross Production Tax Revenue

Fiscal Year	Total Distributions	State General Fund	County Fund	Impact Grant Fund
1986	54,129,624	36,208,124	17,921,500	
1987	34,410,003	22,033,315	12,376,688	
1988	35,260,547	22,736,519	12,524,028	
1989	29,434,368	17,923,334	11,511,034	
1990	33,972,649	20,738,906	13,233,743	
1991	47,612,332	31,127,810	16,484,522	
1992	32,536,334	17,993,251	12,612,291	1,930,792
1993	29,802,080	16,075,676	11,791,588	1,934,816
1994	22,093,783	11,541,422	9,116,849	1,435,512
1995	23,798,926	12,019,079	10,209,527	1,570,321
1996	26,548,326	13,550,184	11,228,254	1,769,888
1997	34,505,108	19,054,995	13,149,772	2,300,341
1998	28,610,476	15,156,083	11,547,020	1,907,364
1999 (estimate)	25,843,000	12,727,000	11,417,000	1,699,000

SOURCE: State Treasurer's Office, and estimates prepared with the Office of Management and Budget.

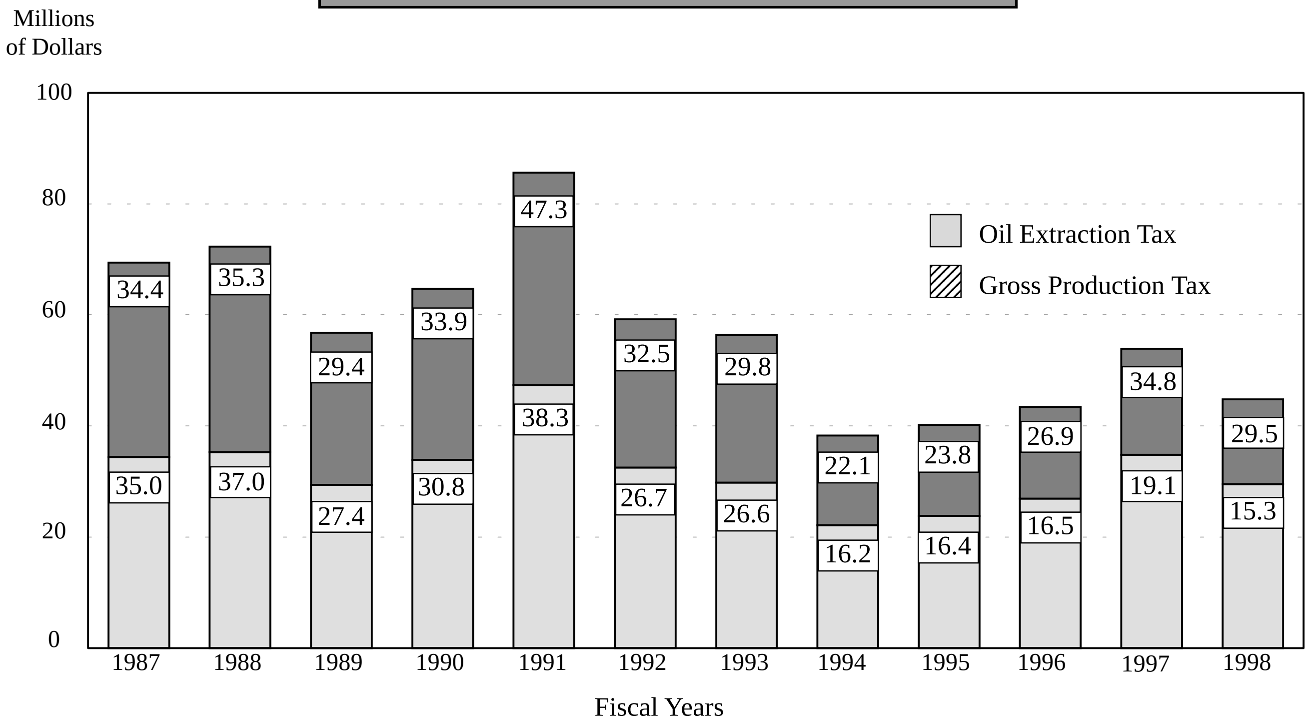
Distribution of Oil Extraction Tax Revenue

Fiscal Year	Total Distributions	State General Fund	Education Funds*	Resources Trust Fund
1986	57,148,758	51,493,652		5,655,106
1987	35,391,141	31,877,584		3,513,557
1988	36,954,125	33,282,631		3,671,494
1989	27,455,827	24,680,068		2,775,759
1990	31,156,324	27,768,967		3,387,357
1991	38,140,609	34,370,173		3,770,436
1992	26,699,694	24,044,310		2,655,384
1993	26,717,760	24,113,200		2,604,560
1994	16,152,813	14,586,537		1,566,276
1995	16,379,609	14,741,648		1,637,961
1996	16,811,677	11,168,763	2,640,498	3,002,416
1997	18,964,317	11,398,059	3,763,686	3,802,573
1998	15,204,014	9,295,710	2,937,272	2,971,032
1999 (estimate)	12,860,000	7,876,000	2,492,000	2,492,000

* Distribution is split evenly between the Common School Trust Fund and the Foundation Aid Stabilization Fund.

SOURCE: State Treasurer's Office and estimates prepared with the Office of Management and Budget.

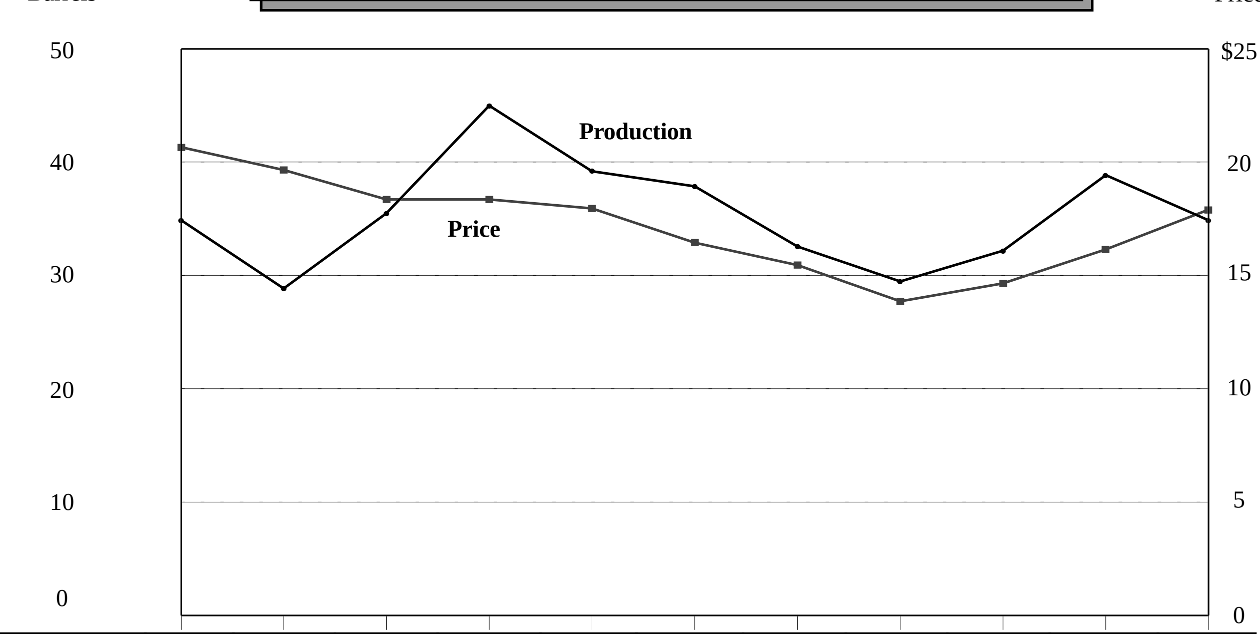
Trends in Oil and Gas Tax Collections



SOURCE: North Dakota Office of State Tax Commissioner, Comparative Statement of Collections.

North Dakota Oil Statistics

Monthly Production and Amoco Field Price for Sweet Crude 1987-1997



Calendar Years	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Price	17.43	14.42	17.74	22.49	19.6	18.93	16.27	14.73	16.09	19.42	17.43
Production	41.3	39.3	36.7	36.7	35.9	32.9	30.9	27.7	29.3	32.3	35.8

Oil Taxes in the 14 Major Oil Producing States

December 1997

State	Severance or Gross Production Tax Rate	Local Ad Valorem Taxes Effective Rate	Misc. Taxes	Total Taxes	Annual Production (Million Barrels) 1992	1996
Alaska (1)	15.0% (13.08%)	*		15.0% (13.08%)	637.1	526.1
Wyoming	6.0%	6.7%		12.7%	91.5	68.9
Montana (2)	0.8% to 17.2%			0.8% - 17.2%	19.3	15.7
Louisiana	12.5%	*		12.5%	144.8	110.4
Texas (3)	4.6%	4% to 5%	0.5%	9.1% to 10.1%	615.7	498.9
NORTH DAKOTA(4)	9.0% or 11.5%	*		9.0% or 11.5%	32.9	32.3
Kansas (5)	8.0%		2.727%	8% (value) + 2.727% (vol.)	53.6	42.2
Utah (3) (6)	3.0% or 5.0%	4% to 5%	0.2%	4.2% + ad valorem (4%-5%)	24.1	19.5
New Mexico	3.75%	1.18%	3.34%	8.27%	72.6	75.0
Colorado (7)	2% to 5%	7.0%	0.17%	7.17%	31.0	26.0
Michigan	6.6%	*	1.0%	7.6%	11.9	7.04
Oklahoma	7.0%	*		7.0%	93.3	86.2
Mississippi	6.0%	*		6.0%	25.4	17.5
California		1% maximum		1% maximum	305.5	283.0

* Severance (or gross production) tax is in lieu of local property taxes on the oil.

(1) Alaska's nominal rate of 15.0% (12.25% for the first five years for new fields) is reduced for each field by an "economic limit factor" determined by the field's total average daily production and its average daily production per well. Because lower production fields have lower rates, Alaska's average effective rate is currently about 13.08%.

(2) Montana's tax rates vary based on the type of well, when the well was drilled, and whether the taxpayer has a working or non-working interest. A portion of the production tax is allocated back to local governments in lieu of property taxes.

(3) Texas and Utah have property taxes on oil properties but it was not possible for local authorities to estimate an effective percentage rate.

(4) In North Dakota, wells drilled and completed after April 27, 1987 are taxed at a rate that is 2.5% lower than older wells.

(5) Kansas has an 8.0% severance tax but allows a credit of up to 3.67% for property taxes paid on oil properties. The severance tax is based on value while the miscellaneous taxes are based on volume.

(6) Information for Utah is through January 1, 1994. The severance tax is 3% on the first $13 per barrel and 5% on any amount over $13 per barrel.

(7) Colorado has a 2% to 5% severance tax but allows 87½% of local property taxes as a credit against the tax. Since property taxes average about 7% this credit generally eliminates the severance tax liability.

SOURCE: Survey of states conducted by North Dakota Office of State Tax Commissioner, Oil and Gas Section, December 1997.

OIL TAXES IN OTHER STATES

Alaska

Alaska's nominal oil severance tax rate is 15%. Each field, however, has what is termed an "Economic Limit Factor" (ELF) which is determined as follows:

$$\left(\frac{\text{average daily prod. per well - 300}}{\text{average daily prod. per well}}\right)\left(\frac{150{,}000}{\text{daily field prod.}}\right)^{1.533}$$

The ELF is taken times 15% to determine the effective percentage applied to the production value from the field. For example, a field with an average total daily field production of 100,000 barrels and an average daily production of 1,200 barrels per well would have an ELF of $0.75^{1.862}$ and an effective severance tax rate of 8.78%.

A minimum tax of 80¢ per barrel times the ELF can come into play in times when the price is very low.

Incentives. For the first five years of a new well's production, the effective rate is determined by taking the ELF times a nominal rate of 12.25% rather than 15%. Currently, the statewide average nominal rate is 14.7% and the average ELF is 0.89, which yields an average effective rate of about 13.08%.

Oil reserves are not subject to ad valorem property taxes in Alaska. Effective in 1994, producers are subject to two separate surcharges of 2¢ and 3¢ per barrel. The 2¢ surcharge was suspended in April 1995, when the conservation fund it supports reached $50 million. The 2¢ surcharge will be reimposed when the fund drops below $50 million.

Colorado

Colorado has a 2% to 5% severance tax but allows 87.5% of local property taxes as a credit against the tax. Since property taxes average about 7%, this credit generally eliminates the severance tax liability.

A conservation tax of 0.14% is administered by the Oil and Gas Conservation Commission.

Kansas

Kansas levies an 8% value-based severance tax but allows a credit of up to 3.67% for property taxes paid on oil properties. "Minimum production" (stripper) wells are exempt but eligibility is based on the depth of the well and the spot price of crude oil. Wells under 2,000 feet must have two barrels per day of production or less, while deeper wells may have five barrels per day or less, depending on the price. (If the well is using waterflood, the required barrels per day are adjusted to three and four, respectively.) Stripper status is granted to wells with higher daily production in times of lower price. All tertiary recovery oil is eligible for an exemption.

Kansas also levies a volume-based 2.727% conservation fee administered by the Kansas Corporate Commission.

Incentives. A "new pool" incentive provision exempts oil from newly discovered pools for a period ending two years after the pool was discovered.

Louisiana

A 12.5% severance tax is levied in lieu of all other taxes, including ad valorem taxes, on the oil reserves. Stripper wells (those with production of 10 barrels a day or less) are taxed at 3.125%, while "incapable" wells (those producing between 10 and 25 barrels per day and having at least 50% salt water) are taxed at 6.25%. Tertiary recovery wells are exempt from the severance tax until the tertiary recovery project pays for itself.

Louisiana also levies an "oil field site restoration fee" of 1¢ per barrel. The fee is reduced to 0.5¢ per barrel for incapable wells and to 0.25¢ per barrel for stripper wells.

Incentives. Oil production from certified deep wells, horizontal wells, and new discovery wells is exempt from the severance tax for a period of two years or until payout of well costs, whichever comes first. Oil production from certified inactive wells is exempt for a five year period from the date of application. Oil production from certified stripper wells is exempt for any month in which the gross value is below $20 per barrel.

Michigan

Michigan levies a 6.6% severance tax on oil that is collected in lieu of ad valorem property taxes on the oil reserves. Michigan also levies an oil and gas maintenance fee that is used for monitoring wells. This fee changes from year to year and is 1.0% as of September 1, 1998.

Incentives. The only incentive offered by Michigan is a reduction in the severance tax to 4% for stripper wells.

Mississippi

Mississippi levies a 6% severance tax that is in lieu of ad valorem property taxes on the oil reserves.

Incentives. All of the following exemptions, except for the "enhanced oil recovery methods," lapses if the average monthly price per barrel of oil exceeds $25:

- Oil produced from a discovery well (drilled between April 1, 1994 through June 30, 1999) is exempt from the tax for five consecutive years beginning on the date of first sale of production from the well.
- Oil produced from a two-year inactive well is exempt from the tax for three consecutive years beginning on the date of first sale of production from the well.
- Oil produced from development wells or replacement wells drilled in connection with discovery wells drilled between January 1, 1994 through December 31, 1998 is taxed at 3% of the value of the oil at the point of production for three consecutive years.
- Oil produced from a development well (drilled with three-dimensional seismic between April 1, 1994 through June 30, 1999) is taxed at 3% of the value of the oil at the point of production for five consecutive years.
- Oil produced by an approved "enhanced oil recovery method" is taxed at 3% of the value of the oil at the point of production.

Montana

The 1995 Montana Legislature significantly changed the structure of oil and gas taxation in Montana. Various taxes on oil and gas production were combined into a single tax, the Montana oil and natural gas production tax, effective for production on or after January 1, 1996. Tax rates vary by type of production, by the date the well was drilled, and for working interests and non-working interests. The following is a summary of the tax rates:

	Working Interest	Non-Working Interest
• Primary Production.		
Pre-1985 Well	14.2%	17.2%
Post-1985 Well		
First 12 months	0.8%	15.1%
12 - 24 months	7.8%	15.1%
After 24 months	12.8%	15.1%
• Stripper Production.[1]		
Pre-1985 Wells		
First 3 barrels	5.8%	17.2%
Over 3 barrels	10.8%	17.2%
Post-1985 Wells		
First 3 barrels	5.8%	15.1%
Over 3 barrels	10.8%	15.1%
• Horizontally Drilled Wells.		
First 18 months	0 .8%	5.8%
18 - 24 months	7.8%	12.8%
After 24 months	12.8%	12.8%
• Incremental Production. [2]		
Secondary Production		
Pre-1985 Wells	8.8%	16.3%
Post-1985 Wells	8.8%	10.8%
Tertiary Production		
Pre-1985 Wells	6.1%	15.3%
Post-1985 Wells	6.1%	9.8%
Horizontally Recompleted		
First 18 months	5.8%	5.8%
After 18 months	12.8%	12.8%

[1] Stripper oil is oil produced from any well that produced less than 10 barrels a day for the calendar year immediately preceding the current year.

[2] This is the volume of oil in excess of the production decline curve as approved by the Board of Oil and Gas Conservation.

New Mexico

New Mexico levies the following oil production taxes:

- Severance tax of 3.75%.
- School tax of 3.15%.
- Conservation tax of 0.19% effective March 1, 1996.
- Ad valorem tax of 1% (average over all counties)

Oil is also subject to an annual local property tax called the oil and gas production equipment ad valorem tax which averages 0.1818% on the prior year's gross value.

Oklahoma

Oklahoma levies a 7% gross production tax that is in lieu of ad valorem taxes. Oklahoma also collects a 0.2¢ per barrel "marginal well fee" and a 2¢ per barrel "education and marketing fee" which are used for the benefit of the industry and are refundable upon request.

Incentives. Incremental production from secondary or tertiary recovery is exempt from the 7% tax until the project has paid for itself. "Horizontal wells" that began production between July 1, 1990 and July 1, 1994 are exempt for two years or until payout.

Any lease operated at a net loss or net profit which is less than the total gross production tax remitted for that lease during the previous tax reporting year is considered an "economically at-risk oil lease". An oil lease that qualifies for certification of an "economically at-risk oil lease" is eligible for an exemption equaling six-sevenths (6/7) of the gross production tax levied on the lease during the previous calendar year. These gross production tax exemptions are limited to production from calendar years 1997, 1998, and 1999.

Texas

Texas levies a 4.6% severance tax on the value of oil produced. This tax is reduced to 2.3% for enhanced recovery projects that began operations after September 1, 1989. Oil properties in Texas are also subject to normal property taxes and to a 0.5¢ per barrel "regulatory tax".

Incentives. Any well that is brought back on-line after being inactive for two years or more before certification is exempt for 10 years. Wells that produce an average of 7 or less barrels of oil a day are eligible for an exemption if the operator implements incremental production procedures to increase the production. The production procedure could be primary, secondary, or tertiary methods. The exemption is a reduction of the tax rate to one half (2.3%) for five years on the incremental production.

Utah

Utah levies a severance tax of 3% on the first $13 per barrel and 5% on any amount over $13 per barrel. This tax is in addition to a normal ad valorem tax on the reserves and a 0.2% conservation tax. Stripper wells, defined as wells that produce 20 barrels per day or less, are exempt from the severance tax.

Incentives. Utah allows an annual exemption of $50,000. In addition, the first six months' production from any new development well and the first 12 months' production from any new wildcat well are exempt from the tax. There is a 50% tax rate reduction on incremental production achieved from an enhanced recovery project.

New workover or recompletion projects receive a 20% tax credit, up to $30,000 per well, through 1999.

Wyoming

A severance tax is levied at 6% of the value of the oil produced. All stripper wells and those tertiary recovery projects begun before December 31, 1994 are eligible for a reduced tax rate of 4%. For tertiary projects, the reduced rate is good for five years and applies to production over an established "base level."

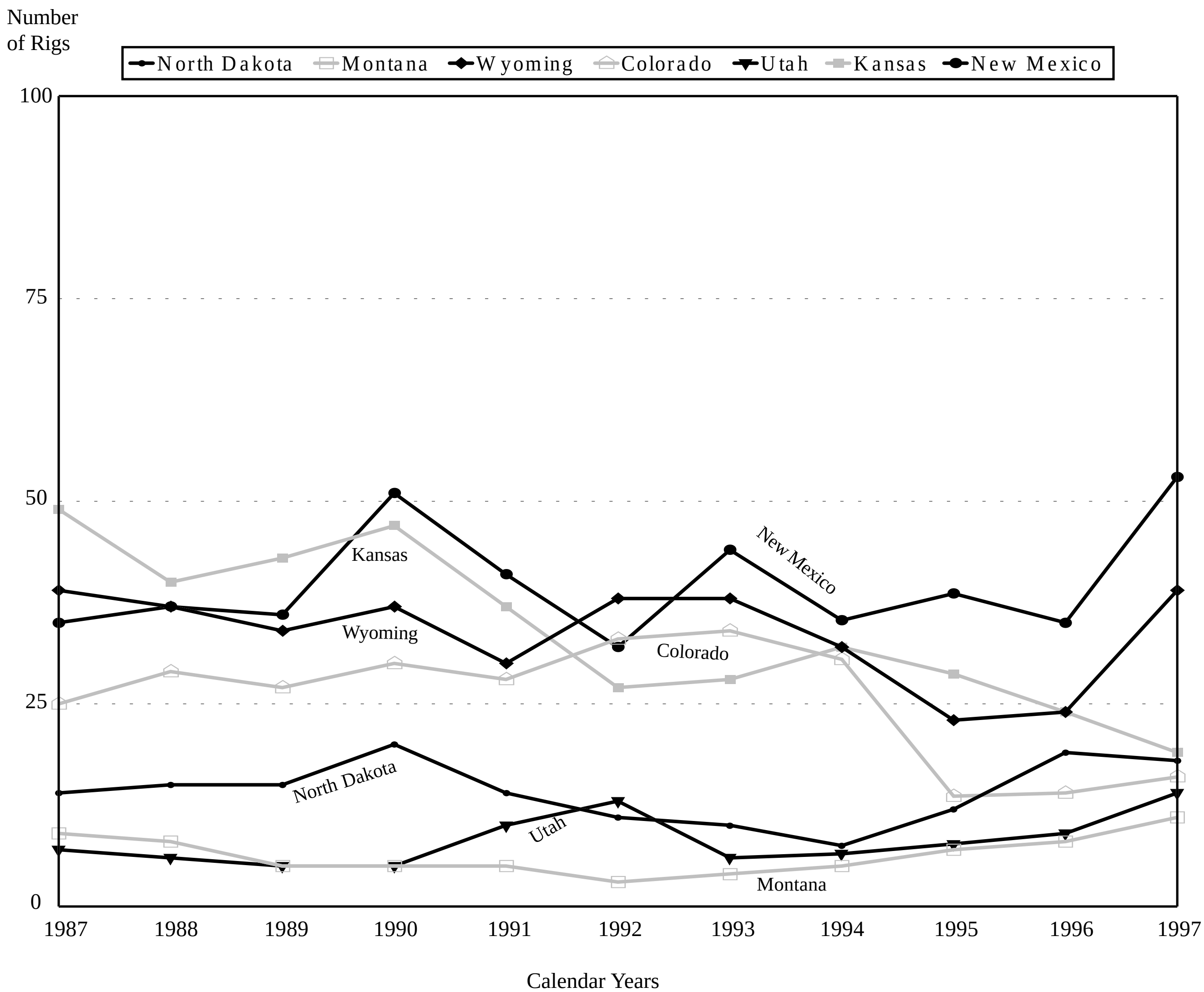
An ad valorem tax is levied on the same value as that used for severance tax purposes but is collected by the counties and based on the applicable local mill rates. Currently, the mill rates are such that these ad valorem taxes average about 6.7% of the value of the oil produced.

Incentives. For wildcat wells (drilled between January 1, 1987 and December 31, 1994) the tax rate is 2% for a period of four years.

Wyoming also grants the reduced rate of 2% on up to 60 barrels per day from new wells and all incremental oil from workovers and recompletions. New wells must be spudded between July 1, 1993 and March 31, 1998. Workovers or recompletions must be started on or after July 1, 1993 and completed by December 31, 1996. In the case of new oil wells, this incentive is canceled if the average price of oil exceeds $22 per barrel for six straight months.

Oil produced from previously shut in wells is subject to a reduced severance tax rate of 1.5% for five years from the date of first renewed production. Wells must have been shut in from January 1, 1993 until January 1, 1995. This incentive is canceled if the average price of oil exceeds $25 per barrel for six straight months.

Western Oil and Gas Producing States
Average Annual Rig Activity



SOURCE: Hughes rig count (annual average). These states have similar geographical formations and similar technologies are used in oil production.

COAL TAXES

Coal Severance Tax

CURRENT LAW

Imposition, Rate and Administration

The coal severance tax is imposed on the act of removing coal from the earth. The tax is in lieu of both the sales and use taxes on coal and the property tax on minerals in the earth. The coal severance tax applies to all coal severed for sale or industrial purposes, except: coal used for heating buildings in the state, coal used by the state or any political subdivision of the state, and coal used in agricultural processing and sugar beet refining plants in the state or adjacent states.

The tax is applied at a flat rate of 75 cents per ton. An additional 2-cent per ton tax is levied for the Lignite Research Fund.

A 50% reduction in the 75-cent tax is allowed for coal burned in a cogeneration facility designed to use renewable resources to generate 10% or more of its energy output.

Coal which is severed and shipped out of state after June 30, 1995 and before July 1, 2000 is exempt from the state's 50% portion of the 75-cent tax. Counties may grant a partial or complete exemption from the counties' 35% portion.

Payments of the tax are made monthly by the owner or operator of the mine.

Distribution of Revenue

Revenue from the 75-cent per ton severance tax is deposited in the Coal Development Fund and is distributed as follows:

- 50% to the State General Fund.

- 15% to a permanent, constitutional trust fund administered by the Board of University and School Lands. The trust fund is used to supply loans to school districts for school construction and loans to cities, counties and school districts impacted by coal development. Investment income from the trust fund is first used to replace uncollectible loans made from the fund, and the balance is deposited in the State General Fund. The legislature may appropriate up to 50% of the taxes collected and deposited in the trust fund during a biennium for lignite research, development and marketing.

- 35% among the coal producing counties according to the amount of coal each county produces. Revenue allotted to each county is further apportioned as follows: 40% to the county general fund; 30% to the cities within the county; and 30% to the school districts. Also, a nonproducing county within 15 miles of a currently active coal mine, and a city or school district in that county and within 15 miles of the mine, are entitled to a share of the coal producing county's severance tax revenue from that particular mine. The amount of coal production on which a county has to share its severance tax revenue with another county during a calendar year is limited to 3,800,000 tons through 1995, 3,600,000 tons in 1996 and 1997, and 3,400,000 tons in years after 1997.

Revenue from the additional 2-cent per ton tax is deposited into the Lignite Research Fund.

Reference: North Dakota Century Code chs. 57-61 and 57-62.

HISTORICAL OVERVIEW

Significant Changes in Law

1975 Session. The legislature first enacted the severance tax on coal mined in the state at a base rate of 50 cents per ton and increasing 1 cent per ton for each three-point increase in the Wholesale Price Index. The revenue distribution formula during the 1975-77 biennium was as follows: 30% to the State General Fund, 30% to a special trust fund administered by the State Land Board, 35% to a special fund for grants to impacted political subdivisions, and 5% to coal producing counties.

1977 Session. The rate was amended to 65 cents per ton and the escalator clause was modified so that the rate increased 1 cent per ton for every one-point increase in the Wholesale Price Index (Producer Price Index). This change resulted in an increase in the rate from 56 cents per ton to 65 cents per ton, effective July 1, 1977. The share of revenue allocated to coal producing counties was increased from 5% to 20%, while the portion allocated to the trust fund was decreased from 30% to 15%. The State General Fund share remained 30% and the allocation for grants to impacted political subdivisions remained 35%.

1979 Session. The base rate became 85 cents per ton and the escalator was amended to provide for a 1-cent increase for every four-point increase in the Wholesale Price Index (Producer Price Index). This modification resulted in a reduction in the coal severance tax from 97 cents per ton to 85 cents per ton.

1981 Session. The legislature created exemptions for coal used by the state or any of its political subdivisions and for coal used for heating buildings within the state. As a result of this change, coal used for heating purposes became subject to the sales tax.

1983 Session. Filing requirements for coal mine owners or operators were changed from a quarterly to a monthly basis.

1985 Session. The legislature created an exemption for coal used in agricultural processing or sugar beet refining plants within North Dakota or in adjacent states. A 50% reduction in the tax rate was created for coal burned in a cogeneration facility designed to use renewable resources to generate 10% or more of its energy output.

1987 Session. The legislature reduced the base rate to 75 cents per ton and eliminated the escalator clause. Prior to the change, the escalator had resulted in a rate of $1.04 per ton. In addition, for the period July 1, 1987, through June 30, 1989, the legislature enacted an additional tax of 2 cents per ton and dedicated the revenue for lignite research. Distribution of the 75 cent tax was changed as follows: the State General Fund portion was increased from 30% to 50%, the counties' share was increased from 20% to 35%, the trust fund allocation remained at 15%, and the 35% share previously allocated for grants to impacted political subdivisions was eliminated.

1989 Session. The 2-cent per ton tax for lignite research was made a permanent tax.

1990 Constitutional Amendment. Voters in the Primary Election approved a constitutional amendment placed on the ballot by the legislature to allow up to 50% of the taxes collected and deposited in the trust fund during a biennium to be appropriated by the legislature for lignite research, development and marketing.

1991 Session. The legislature provided for 50% of the taxes collected and deposited in the trust fund to be appropriated by the legislature for lignite research, development and marketing, in accordance with the 1990 constitutional amendment.

1993 Session. The legislature limited the amount of coal production on which a coal producing county has to share its severance tax with a nearby nonproducing county. Loans for school construction was added to uses of the trust fund. Coal which is shipped out of state after June 30, 1995, and before July 1, 2000, was made exempt from the state's 50% portion; counties may grant a partial or complete exemption from the county's 35% portion.

1994 Constitutional Amendment. Voters in the Primary Election approved a constitutional amendment placed on the ballot by the legislature to allow appropriations from the trust fund for clean coal demonstration projects approved by the North Dakota Industrial Commission and the United States Department of Energy. [The Department of Energy did not approve a clean coal demonstration project in North Dakota.]

1995 Session. The legislature increased the amount of the taxes collected and deposited in the trust fund during a biennium to be appropriated by the legislature for lignite research, development and marketing from 50% to 70%.

1997 Session. Effective July 1, 1999, the legislature exempted coal burned in coal-fired boilers within North Dakota or adjacent states in which the generation station has a total capacity of not more than 210 megawatts from 50% of the 75-cent coal severance tax. A city, school district, or the county commissioners of the county in which the coal is mined may grant a partial or complete exemption from their share of severance tax revenues. A political subdivision that has granted an exemption from all or part of its share of severance tax revenues must be omitted from the allocation or have its allocation adjusted to reflect the reduction it has granted.

Coal Severance Tax Collections and Distribution

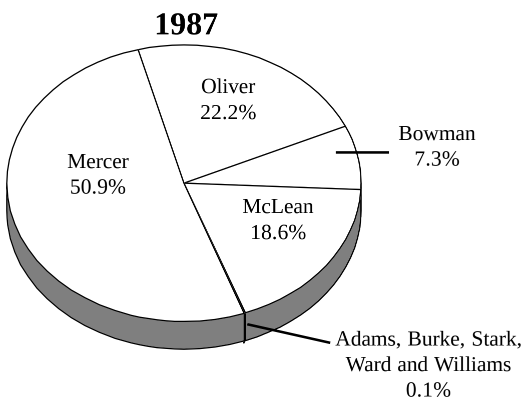
Fiscal Year	Total Collections	State General Fund	Land Board Trust Fund	Impact Office	Counties	Lignite Research	Average Rate/Ton
1988	20,836,210 (1)	9,745,193	3,035,798	654,736	6,824,477	489,813	.77
1989	23,010,209 (1)	11,205,267	3,361,379	(1,171)	7,844,390	597,667	.77
1990	22,779,772	11,094,045	3,328,214	0	7,765,831	591,682	.77
1991	22,238,051	10,830,220	3,249,066	0	7,581,154	577,611	.77
1992	23,327,988	11,361,033	3,408,310	0	7,952,723	605,922	.77
1993	24,399,555	11,883,095	3,564,929	0	8,316,166	633,365	.77
1994	24,558,597	11,960,356	3,588,107	0	8,372,249	637,886	.77
1995	24,369,347	11,868,189	3,560,457	0	8,307,732	632,970	.77
1996	22,854,955	11,129,554	3,338,866	0	7,790,688	595,847	.77
1997	22,915,612	11,160,152	3,348,046	0	7,812,107	595,307	.77
1998	22,858,572	11,130,271	3,340,339	0	7,794,125	593,837	.77
1999 est.	23,515,000	11,444,000	3,438,000	0	8,022,000	611,000	.77

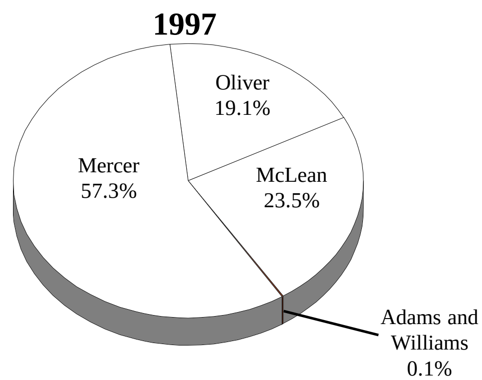
(1) Total collection amounts also include refund amounts of $86,193 in fiscal year 1988 and $2,677 in fiscal year 1989.

SOURCE: North Dakota Office of State Tax Commissioner, State Treasurer's Office, and estimates prepared with Office of Management and Budget.

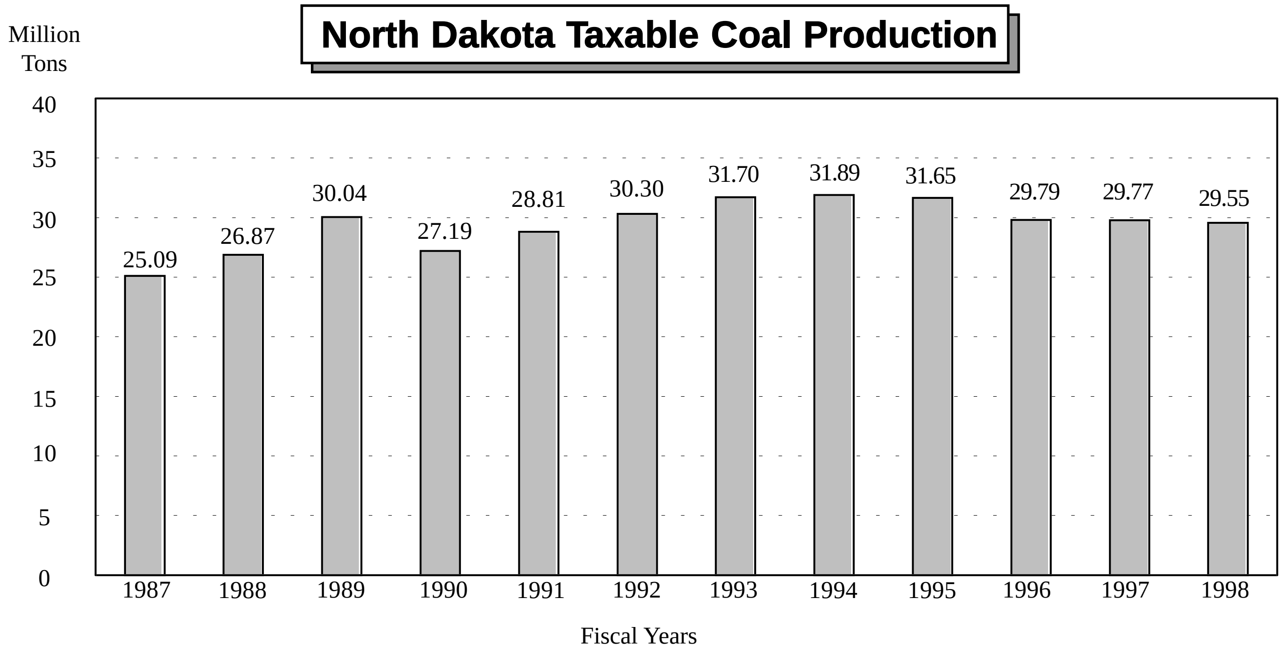
County Breakdown - Coal Severance Tax Revenue

Fiscal Years 1987 and 1997





North Dakota Taxable Coal Production



TAXATION OF COAL IN NEIGHBORING STATES

Montana

Montana levies the following taxes on surface mined coal:

- Coal Gross Proceeds Tax

A statewide 5% yearly flat tax is imposed on coal gross proceeds. The gross proceeds of coal is determined by multiplying the number of tons produced by the contract sales price. One-half of the contract sales price of coal sold by a coal producer who extracts less than 50,000 tons of coal in a calendar year is exempt from taxation. This tax is collected at the county level.

- Coal Severance Tax

Imposed on all coal mined in the state. Producers of over 50,000 tons of coal per year pay a quarterly severance tax on all production in excess of 20,000 tons. Producers of under 50,000 tons per year are exempt from the tax. The first 2 million tons of coal produced as "feedstock" for a coal enhancement facility is exempt.

Tax rates depend on the heat content (BTU's per pound) of the coal and the method of extraction. The value of coal to which the severance tax is applied is the contract sales price. Current tax rates:

Surface Mined Coal

Under 7,000 BTU's	10% of value
7,000 BTU's and over	15% of value

<u>Incentives.</u> Persons producing less than 50,000 tons of coal in a year are exempt from severance tax on the first 20,000 tons produced. A person is not liable for any severance tax upon the first 2,000,000 tons of coal produced as feedstock for an approved coal enhancement facility. This exemption terminates December 31, 2005. One-half of the contract sales price of coal sold by a coal producer who extracts less than 50,000 tons of coal in a calendar year is exempt from taxation.

Wyoming

Wyoming levies the following taxes on surfaced mined coal:

- A severance tax of 7% of the mine mouth value. This is a lower base than is used in Montana because Wyoming allows deductions for costs, such as crushing and transportation to the rail car, that occur after the coal has been brought to the mouth of the mine.

- A "gross products tax." It is based on the same taxable value as that used for severance tax purposes but is collected by the counties and based on applicable local mill rates. Statewide, this yields an average tax of between 6% and 7½%. For 1996 production, the average mill rate was 63.081.

<u>Incentives.</u> A maximum severance tax rate of 80 cents per ton applies on certain new contracts signed through March 1, 1999. At current price levels, however, the 7% severance tax is actually <u>lower</u> than 80 cents per ton on most production, so the incentive is less important.

Coal Conversion Tax

CURRENT LAW

Imposition, Rate and Administration

The coal conversion facilities privilege tax is imposed on the operator of a coal conversion facility for the privilege of producing electricity or other products from coal conversion plants. A coal conversion facility is defined as (1) an electrical generating plant which has at least one unit with a generating capacity of 120,000 kilowatts or more of electricity, (2) a plant other than an electrical generating plant which processes or converts coal and uses or is designed to use over 500,000 tons of coal per year, or (3) a coal beneficiation plant.

The coal conversion tax is in lieu of property taxes on the plant itself, while the land on which the plant is located remains subject to the property tax. The tax is paid monthly.

Electrical Generating Plants. Electrical generating plants, as defined above, are subject to two separate levies. One levy is ¼ mill times 60% of installed capacity times the number of hours in the taxable period and the other levy is ¼ mill per kwh of electricity produced for sale. Installed capacity means the rating shown on the nameplate assigned to the turbine of the power unit.

Other Coal Conversion Plants. A ***coal gasification plant*** is subject to a monthly tax measured by 7 cents per thousand cubic feet of gas produced for sale or 2½% of gross receipts, whichever is greater. ***Plants converting coal to products other than gas*** are taxed at 2½% of gross receipts. The tax rate for a ***coal beneficiation plant*** is 20 cents per ton of beneficiated coal produced for sale or 1¼% of gross receipts, whichever is greater.

Exemptions

Exemptions to the coal conversion tax are as follows:

- Synthetic natural gas produced in excess of 110 million cubic feet per day.
- Income from byproducts of a coal gasification plant to a maximum of 35% of gross receipts from January 1, 1997, through December 31, 2000, and to a maximum of 20% of gross receipts after December 31, 2000.
- Revenue derived from the sale and transportation of carbon dioxide for use in the enhanced recovery of oil or natural gas, retroactive to January 1, 1997.
- Beneficiated coal produced in excess of 80% of plant design capacity.
- A new coal-burning electrical generating plant is exempt from the State General Fund portion of both levies for five years. The county may grant an exemption for up to five years from the county's 35% share of the levy on installed capacity.
- All new coal conversion plants other than electrical generating plants are exempt from the State General Fund portion (65%) of the tax for five years. The county may grant a partial or complete exemption from the county's 35% share for up to five years.

Distribution of Revenue

Electrical Generating Plants. The revenue from the ¼ mill levy on production is deposited in the State General Fund. The revenue from the ¼ mill levy on installed capacity is distributed as follows:

- 65% to the State General Fund.
- 35% to the county in which the plant is located. The amount distributed to each county is apportioned as follows: 40% is deposited in the county general fund; 30% is divided among all incorporated cities in the county according to population; and 30% is divided among all school districts in the county on the basis of average daily membership.

Other Coal Conversion Plants. The revenue is distributed as follows:

- 65% to the State General Fund.

- 35% to the county in which the plant is located. The amount distributed to each county is apportioned as follows: 40% is deposited in the county general fund; 30% is divided among all incorporated cities in the county according to population; and 30% is divided among all school districts in the county on the basis of average daily membership.

Reference: North Dakota Century Code ch. 57-60.

HISTORICAL OVERVIEW

Significant Changes in Law

1975 Session. The legislature enacted the privilege tax on coal conversion facilities. The conversion tax on electrical generating plants was levied at ¼ mill per kwh produced for sale. The tax on all other coal conversion facilities was levied at 2½% of gross receipts or 10 cents per mcf, whichever was greater. The formula for allocation of conversion tax revenue was dependent on the amount of revenue generated from each county. As revenue from a county increased, the percentage distributed to the State General Fund increased and the percentage distributed to the county decreased. The county share was apportioned as follows: 40% to the county, 15% to cities, and 45% to school districts.

1977 Session. The revenue distribution formula was changed to 65% to the State General Fund and 35% to the county. The allocation of the county share was changed to 40% to the county, 30% to cities, and 30% to school districts.

1983 Session. An additional ¼ mill per kwh tax rate for electrical plants was enacted. This change brought the tax on electrical generating plants to ½ mill per kwh. The revenue from the ¼ mill increase was dedicated entirely to the State General Fund. In addition, the legislature changed filing requirements to a monthly rather than quarterly basis.

1985 Session. The tax rate on coal gasification plants constructed before July 1, 1985 was changed from 10 cents to 15 cents per thousand cubic feet of gas produced for sale, or 2½% of gross receipts, whichever is greater. The definition of gross receipts was changed to exclude any financial assistance from the federal government. A five-year exemption from part or all of the tax was added for coal conversion facilities, other than electrical generating plants, if the facility was constructed after July 1, 1985.

1987 Session. The tax rate on electrical generating plants was changed from two separate ¼ mill levies based on production to one ¼ mill levy on 60% of installed capacity times the number of hours in the taxable period and one ¼ mill levy on production. The tax rate on all coal gasification plants was reduced to 7 cents per thousand cubic feet of gas produced for sale, or 2½% of gross receipts, whichever is greater. Exemptions were enacted for synthetic natural gas produced in excess of 110 million cubic feet per day and for receipts from byproducts of a coal gasification plant to a maximum of 20% of gross receipts. Also, the five-year exemption for coal conversion facilities other than electrical generating plants was made effective from the date of first taxable production and the reference to date of construction was eliminated.

1989 Session. A coal beneficiation plant was defined as a coal conversion plant and subject to a tax of 20 cents per ton or 1¼% of gross receipts, whichever is greater. An exemption was made for beneficiated coal produced in excess of 80% of plant design capacity.

1991 Session. A five-year exemption from part or all of the tax was created for new coal-burning, electrical generating plants.

1997 Session. The legislature increased the exemption for income from by-products of a coal gasification plant from 20% to 35% from January 1, 1997, through December 31, 2000. The exemption reverts to 20% after December 31, 2000. The legislature exempted revenue derived from the sale and transportation of carbon dioxide for use in the enhanced recovery of oil or natural gas, retroactive to January 1, 1997.

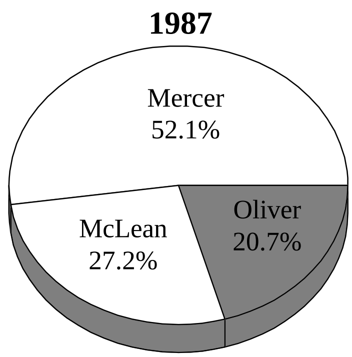
Coal Conversion Tax Collections and Distribution

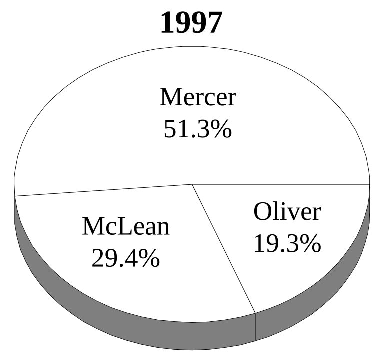
Fiscal Year	Total Collections	Distributed to State General Fund	Distributed to County
1988 [1]	10,583,918	8,852,946	1,730,972
1989 [1]	11,728,585	9,260,829	2,467,756
1990 [1]	11,927,176	9,179,001	2,748,175
1991 [1]	12,262,138	9,469,877	2,792,261
1992 [1]	12,532,115	9,772,293	2,759,822
1993 [1]	12,698,739	9,785,369	2,913,370
1994	14,280,798	11,270,643	3,010,155
1995	14,515,467	11,689,568	2,825,899
1996	15,053,253	12,170,245	2,883,008
1997	14,726,047	11,894,536	2,831,511
1998	14,517,454	11,782,035	2,735,419
1999 est.	14,880,000	12,089,000	2,791,000

[1] Because the Great Plains Coal Gasification Plant was operated by the U.S. Department of Energy from August 1, 1985 through October 31, 1988, the plant's production was nontaxable during that time. When the plant returned to private control on November 1, 1988, the new owner was exempt from the state's share (65%) of the tax for five years

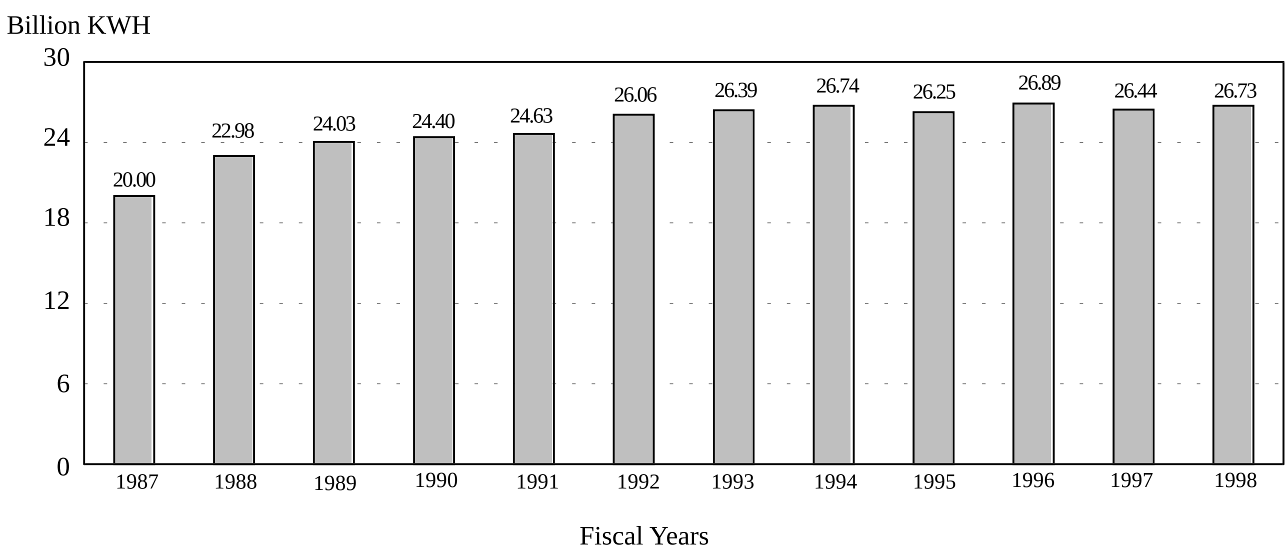
SOURCE: North Dakota Office of State Tax Commissioner, State Treasurer's Office, and estimates prepared with the Office of Management and Budget.

County Breakdown - Kilowatt Hours Produced Subject to Coal Conversion Tax





Kilowatt Hours (KWH) Produced Subject to Coal Conversion Tax



PROPERTY TAXES

CURRENT LAW

LOCALLY ASSESSED PROPERTY

Imposition, Administration and Distribution of Revenue

All real property, unless specifically exempted, is subject to a property tax. A mobile home used as a residence or business is subject to the tax if it is 27 or more feet long or is attached to utility services.

The property tax is determined by multiplying the mill rate times the taxable value of real property.

The county determines and collects the tax and distributes the revenue to the county, cities, townships, school districts, and other taxing districts. The tax is due January 1 of each year following the year of assessment and is payable without penalty until March 1. A 5% discount is allowed for taxes paid in full before February 15.

Mill Rates

Local mill rates are established to meet the revenue needs of the taxing district. Each taxing district prepares a proposed budget to determine the money needed to provide services. After public hearings, the elected governing bodies adopt final budgets and certify tax levies (total property taxes) to the county auditor. The tax levy may not exceed the legal maximum. Beginning with taxes payable in 1998, the only increases allowed without voter or legislative approval will be property added to the tax rolls. To determine the mill rate, the county auditor divides the total property taxes to be collected for each taxing district by the district's total taxable value.

Taxable Value

Residential. The determination of taxable value begins with the true and full value or market value of the property. The true and full value of residential property is usually established by the local assessor. The assessed value is 50% of the true and full value and the taxable value is 9% of the assessed value.

Commercial. The true and full value of most commercial property is established by the local assessor. The true and full value of railroad, public utility, and airline property is centrally determined by the State Board of Equalization (see page 69). The assessed value is 50% of the true and full value and the taxable value is 10% of the assessed value.

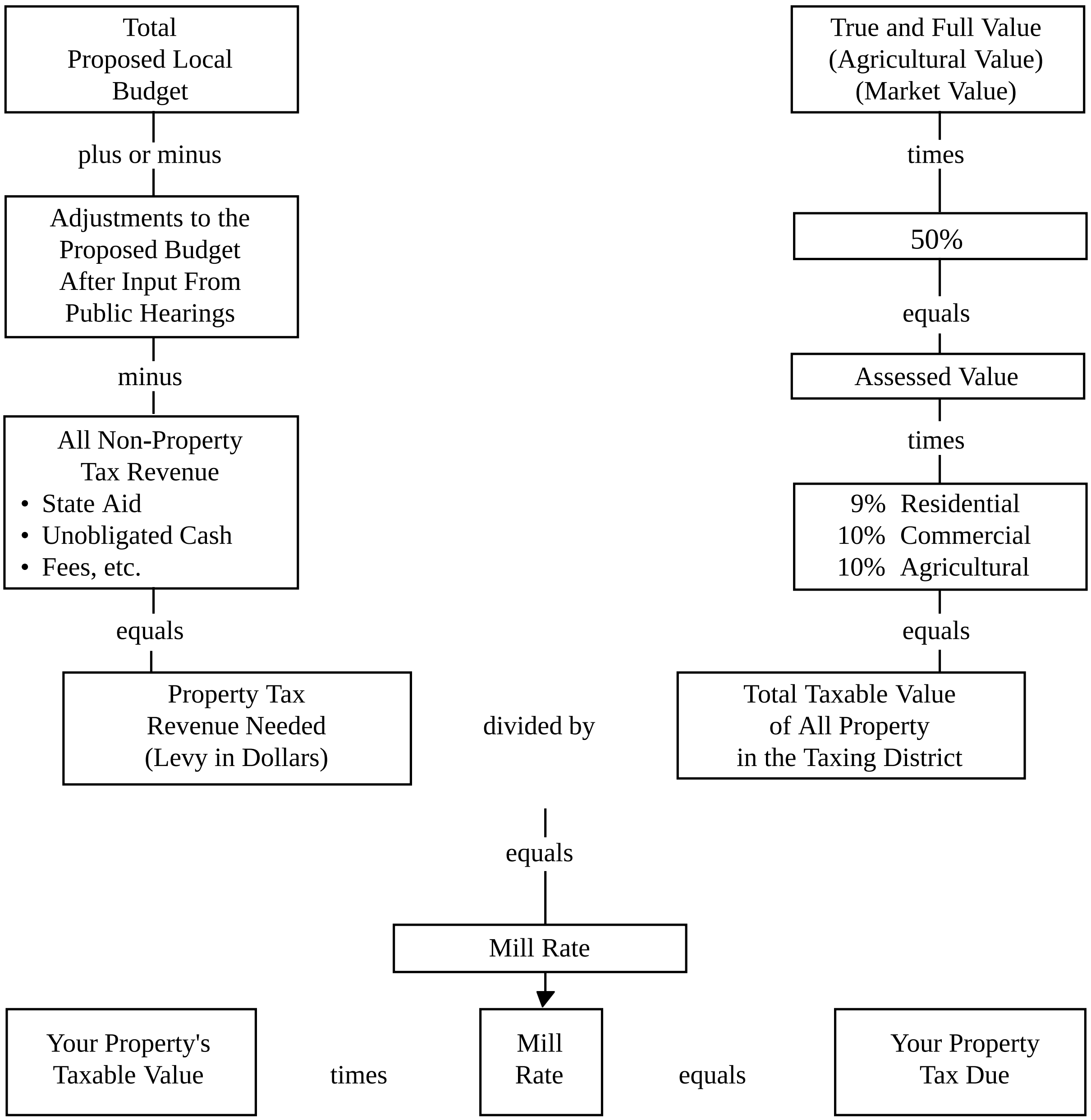
Agricultural. The true and full value of agricultural property is based on productivity as established through computations made by North Dakota State University of the capitalized average annual gross return of the land. This information is forwarded to the State Tax Commissioner who certifies to the county directors of tax equalization the estimated average true and full agricultural value of farm and grazing land in each county.

The county tax directors use the certified estimates of the county average agricultural values to determine the average value of agricultural lands within each assessment district in the county. This estimate is based on the relative value of lands for each assessment district compared to the county average. In determining the relative value, the county tax directors are to use soil type and soil classification data, wherever possible. In turn, the average agricultural value of agricultural lands within each assessment district is used by each local assessor to determine the agricultural value of each assessment parcel within the local district's jurisdiction.

The assessed value of agricultural land is 50% of the true and full value and the taxable value is 10% of the assessed value.

Equalization Process. Equalization is a method required by law to adjust assessments so that they are consistent with market value or, in the case of agricultural land, the value of agricultural productivity. Local assessments are reviewed and equalized by either the Township Board of Equalization on the second Monday in April or the City Board of Equalization on the second

North Dakota Property Tax System



All property in North Dakota is subject to property tax unless it is specifically exempted. Except for a one-mill levy for the State Medical Center, property taxes are administered, levied, collected and expended at the local level for the support of schools, counties, cities, townships and other local units of government. The State does not levy a property tax for general government operations.

The property tax is an "ad valorem" tax, that is, it is based on the value of the property subject to tax. The other element of the property tax is the amount of revenue that needs to be raised.

Tuesday in April. The Board of County Commissioners meets within the first ten days of June to equalize among assessment districts within the county. The State Board of Equalization has the responsibility to equalize among counties and assessment districts in a county and meets the second Tuesday in August.

Exemptions and Credits

Property tax exemptions and credits are listed below according to type of property.

Residential Property:

- Personal property is exempt.

- A property tax exemption of up to three years is available for the value added by rehabilitation or remodeling to property which is 25 years old or older if the city or county approves the exemption.

- Homes owned and occupied by persons who are blind or disabled may be eligible for exemption or partial exemption from property taxes, subject to annual review.

- A geothermal, solar or wind energy system may qualify for a five-year exemption.

- Qualifying new single-family residences and condominiums may be exempt for two years, provided the exemption is approved by the city or county. The exemption is limited to a maximum of $75,000 of the structure's value.

- Homeowners who are 65 years of age or older or who are certified as permanently and totally disabled regardless of age may be entitled to certain property tax credits under the homestead property tax credit program. Qualifications include an annual income of $13,500 or less (including Social Security and pensions) and assets of $50,000 or less (excluding the first $80,000 value of the homestead). A qualifying homeowner may receive a credit to reduce the property's taxable value by up to $2,000. Applications are filed with the local assessor.

  In addition, these homeowners may qualify for a special assessment credit which becomes a lien on the real property and must be repaid when the property is transferred.

- Renters who are 65 years of age or older or who are certified as permanently and totally disabled regardless of age and who have an annual income from all sources of $13,500 or less may be entitled to rent refunds under the homestead property tax credit program. Those who qualify may receive rent refunds of up to $240 if 20% of the rent they pay exceeds 4% of their income. Renters apply to the Office of State Tax Commissioner for this refund.

Commercial Property:

- A property tax exemption of up to five years and in certain cases up to ten years is available to a qualifying new or expanding business (see page 68).

- Personal property is exempt.

- An exemption of up to three years is available for the value added to property by rehabilitation or remodeling if the city or county approves the exemption.

- The portion of a building used primarily for licensed day care is exempt if the city or county approves the exemption.

- A geothermal, solar or wind energy system may qualify for a five-year exemption.

- A cooperative or nonprofit organization that provides water to its members and customers may be eligible for an exemption for its buildings and structures.

- A public parking structure is eligible for an exemption.

- A pollution control improvement is exempt if the city or county approves the exemption.

Agricultural Property:

- Personal property is exempt.

- Farm structures are exempt if used in operations normally associated with farming and ranching. Farm residences are exempt if located on 10 acres or more of agricultural land, if occupied or used by a farmer who normally devotes the major portion of time to farming operations, and if the farmer receives not less than 50% of annual net income from these operations in any one of the preceding three years. The residence is not eligible if the farmer has received more than $40,000 of non-farm income in each of the three preceding years. The income requirements apply to the combined income of the farmer and spouse.

- A qualifying wetland is exempt if the owner signs an agreement to keep the property as wetland. If the land is removed from wetland status, the landowner must repay up to ten years of the taxes forgiven. This exemption is available if funds are available for the state to reimburse the political subdivisions for all revenue losses.

- State-owned land leased for grazing or pasture purposes is exempt. State-owned land leased for growing crops is exempt if payments in lieu of property taxes are made by the state.

Other Property:

- Property owned by a governmental unit is exempt.

- Property owned and used exclusively for religious or charitable purposes is exempt. Property owned by a religious organization may retain its exemption if the property is rented to a tax-exempt organization and no profit is realized from the rent.

- Property owned by a lodge, club, association or like organization is exempt if the organization is nonprofit, if the property is used for meeting and for conducting business or ceremony, and if food or alcoholic beverages are not sold for profit on the premises. This property, however, is subject to taxation by cities for the cost of fire protection services.

- All property belonging to an educational institution and not used for profit is exempt.

- Property owned by a nonprofit corporation and used for promoting athletic and educational needs at a state educational institution is exempt.

- All land used exclusively for burying grounds or cemeteries is exempt.

- Land belonging to a military organization and used as a public park or monument ground and not for gain is exempt.

- Minerals in place in the earth are exempt if, at the time of extraction, they are subject to either the oil and gas gross production tax or the coal severance tax.

- Property of American Indians, where the title cannot be transferred without the consent of the U.S. Secretary of the Interior, is exempt.

- Forested land may be eligible for a reduced property tax rate of 50 cents per acre.

New Business Exemption

Parameters. Any new or expanding business project may be granted a property tax exemption for up to five years. Two extensions are available:

- Agricultural processors may be granted a partial or full exemption for up to five additional years.

- A project which is located in property leased from a governmental entity qualifies for an exemption for up to five additional years upon annual application by the project operator.

In addition to or instead of an exemption, local governments and any project operator may negotiate payments in lieu of property tax for a period of up to 20 years from the date project operations begin for projects built after June 30, 1994.

Qualifications. A qualifying "project" is any new or expanded revenue-producing enterprise. All buildings, structures or improvements used in or necessary to the operation of the project qualify. The structure might be the project's building or the project's quarters within a larger building. An exemption may not be granted for land. A project is not eligible for an exemption if the project received a tax exemption under tax increment financing or if the governing body determines the exemption fosters unfair competition or endangers existing business.

Application Procedures. The project operator applies to the city governing body if the project is located within city boundaries. If the project is located outside city boundaries, application is made to the county commission.

- The application must be made and approved before construction of a new structure begins. If the project will occupy an existing structure, application must be made and approved before the structure is occupied.

- If the city or county governing body determines there are local competitors, the project operator must publish two notices in the official newspaper of the city or county at least one week apart, and the last notice must be published at least 15 days, but not more than 30 days, before the city or county considers the application. For example, notices published one week apart on May 1 and May 8 are appropriate for a hearing scheduled anytime between May 23 and June 7.

- The city or county governing body holds a public hearing on the application.

- After the public hearing, the city or county governing body acts on the application.

Reference: (property tax) North Dakota Century Code chs. 57-02, 57-02.2, 57-09, 57-11, 57-12, 57-13, 57-20 and 57-55; (new business exemption) N.D.C.C. ch. 40-57.1.

CENTRALLY ASSESSED PROPERTY

Assessment Procedures

Assessments for property tax purposes on railroads, investor-owned public utilities, and airlines are determined by the State Board of Equalization. As with all other commercial property, the assessed value of centrally assessed property is 50% of the true and full value and the taxable value is 10% of the assessed value. The taxable value of centrally assessed property is subject to property taxes as discussed below for each type of property.

Steps in the assessment process are as follows:

1. The company must file an annual report with the State Tax Commissioner by May 1.

2. The State Tax Commissioner prepares a tentative assessment by July 15.

3. Notice of tentative assessment is sent to the company ten days prior to the State Board of Equalization meeting.

4. The State Board of Equalization meets the first Tuesday in August at the Office of State Tax Commissioner to receive testimony on the value of centrally assessed property and to make the assessments.

5. Following the action of the State Board of Equalization, the State Tax Commissioner certifies the assessments to the counties.

Airlines

A regularly scheduled airline serving North Dakota cities pays a property tax computed by applying the average of all mill levies in the municipalities served by regularly scheduled airlines against the taxable valuation of an airline's operating real property located in North Dakota.

The State Treasurer collects the tax and distributes the revenue to the municipalities in which the airline operates. The revenue is used exclusively for airport purposes.

Public Utilities

Centrally assessed public utilities are investor-owned power, gas and pipeline companies. The tax for telecommunications carriers is discussed below. The taxable value of a utility's North Dakota real and personal operating property is subject to the mill levies of the taxing districts in which the property is located.

A 10-year exemption is allowed for pipelines carrying CO_2 for use in enhanced recovery of oil or natural gas. The state reimburses political subdivisions for the lost tax revenue.

The tax is collected by the county and distributed to the taxing districts within the county.

Railroads

Railroad operating real property is taxed at the mill rates of the taxing districts in which the property of the railroad is located. The tax is collected by the county and distributed to the various taxing districts within the county.

Reference: N.D.C.C. chs. 57-05, 57-06, 57-13 and 57-32.

TAXES PAID IN LIEU OF PROPERTY TAXES

Telecommunications Carriers

Telecommunications carriers are assessed a tax of two and one-half percent of their adjusted gross receipts by the state board of equalization. The gross receipts tax is paid annually to the tax commissioner. The state allocates $8.4 million annually to the counties for distribution to political subdivisions. Revenue in excess of $8.4 million is deposited in the state general fund.

Rural Electric Cooperatives

Rural electric generation, transmission and distribution cooperatives pay a gross receipts tax instead of a property tax on all property except land, which is assessed locally. The gross receipts tax is 1% during the first five years of business and 2% thereafter. The tax is paid annually to the county. The revenue is apportioned to each county according to the miles of lines the cooperative has in the county compared to its total miles of line and is distributed to the taxing districts within the county.

Rural electric cooperatives which have at least one unit with a generating capacity of 100,000 kilowatts or more pay a transmission line tax of $225 per mile on transmission lines of 230 kilovolts or more. This tax is collected annually and the revenue is apportioned among the counties in which the lines are located according to the number of miles in each county. The revenue goes to the county general fund.

Coal Conversion Facilities

The coal conversion tax is in lieu of property taxes on investor-owned or cooperative electrical generating plants which have at least one unit with a generating capacity of 120,000 kilowatts or more of electricity, other coal conversion facilities consuming 500,000 tons or more of coal per year, or coal beneficiation plants. (See page 61.)

Tourism or Concession License Fee

A license fee in lieu of property taxes is payable for state-owned property leased from the Superintendent of the State Historical Board or the Director of State Parks and Recreation and used for tourism or concession purposes. The fee is set by the superintendent or by the director and is at least $1, but not more than 1% of the tenant's gross receipts. The tenant pays the license fee to the county treasurer, who deposits the payment into the county general fund.

Reference: N.D.C.C. ch. 57-02, 57-06, 57-33, 57-33.1 and 57-34.

HISTORICAL OVERVIEW

Significant Changes in Law

Before 1981. Prior to the 1981 Legislative Session, the standard of value was market value, but property was assessed at a fraction of its market value. By law, all real property was in one class, but a de facto classification system existed. Limitations were imposed on the number of mills which could be levied.

1981 Session. The legislature changed the procedures for determining the value of property for tax purposes to include methods of establishing the true and full value, assessed value, and taxable value of property, according to a new classification system. Limits were placed on the dollar amount of change in the levy rather than on the number of mills which could be levied. The new law allowed up to a 7% increase in the amount of dollars levied. Also, the maximum income to qualify for the homestead credit was increased from $9,000 to $10,000.

1983 Session. The legislature allowed for a 4% increase in the amount of dollars levied. Cities and counties were authorized to give two-year exemptions for new single family or town house property. The new business exemption's cost and sales limitations were increased from $100 million to $150 million.

1985 Session. The legislature allowed for a 3% increase in the amount of dollars levied. An exemption for qualifying wetlands was enacted, effective for tax years beginning after December 31, 1986. The maximum income to qualify for the homestead credit was increased from $10,000 to $12,000.

1987 Session. The legislature allowed for a 5% increase in the amount of dollars levied. The legislature removed limitations on the type of business qualifying for the new business exemption. Previously, the exemption was limited to assembling, fabricating, manufacturing, mixing, processing, storing, warehousing, or distributing any agricultural, mineral or manufactured product. In effect, qualifications were expanded to include service and retail industries.

1989 Session. The legislature allowed for a 5% increase in the amount of dollars levied. An exemption was added for day care in commercial property and the exemption for religious organizations was extended to include property rented to a tax-exempt organization. The income limitation to qualify for the homestead property tax credit program was increased from $12,000 to $13,000 per year. Changes to the new business exemption law included the following: removing the requirement that the State Board of Equalization approve the property tax exemption; excepting property in cities of 3,000 population or less from the vacancy requirement; excluding projects exempt under tax increment financing; and allowing the property tax exemption to be extended up to ten years for projects in property leased from a governmental entity.

1991 Session. The legislature allowed for a 4% increase in the amount of dollars levied. The property tax exemption was broadened to include expanding businesses and was decoupled from the income tax exemption; the vacancy requirement to use existing buildings was removed; and a partial exemption for the sixth through tenth years was allowed for projects which produce or manufacture a product from agricultural commodities grown in North Dakota. A 10-year exemption was created for pipelines carrying CO_2 to an enhanced recovery project in a North Dakota oil field. A license fee in lieu of property taxes was adopted for certain state-owned property leased for tourism or concession purposes. Changes to the property tax on forested land included a 50-cent per acre rate and several administrative changes.

1993 Session. The legislature set the maximum levy increase at 3% for taxes payable in 1994 and 2% for 1995. Cities and counties were permitted to exempt pollution control improvements. An exemption was granted to state-owned land leased for grazing or pasture purposes. State-owned land leased for growing crops was exempted if payments in lieu of property taxes are made by the state. The income limitation to qualify for the homestead property tax credit program was increased from $13,000 to $13,500 per year beginning with the 1995 tax year.

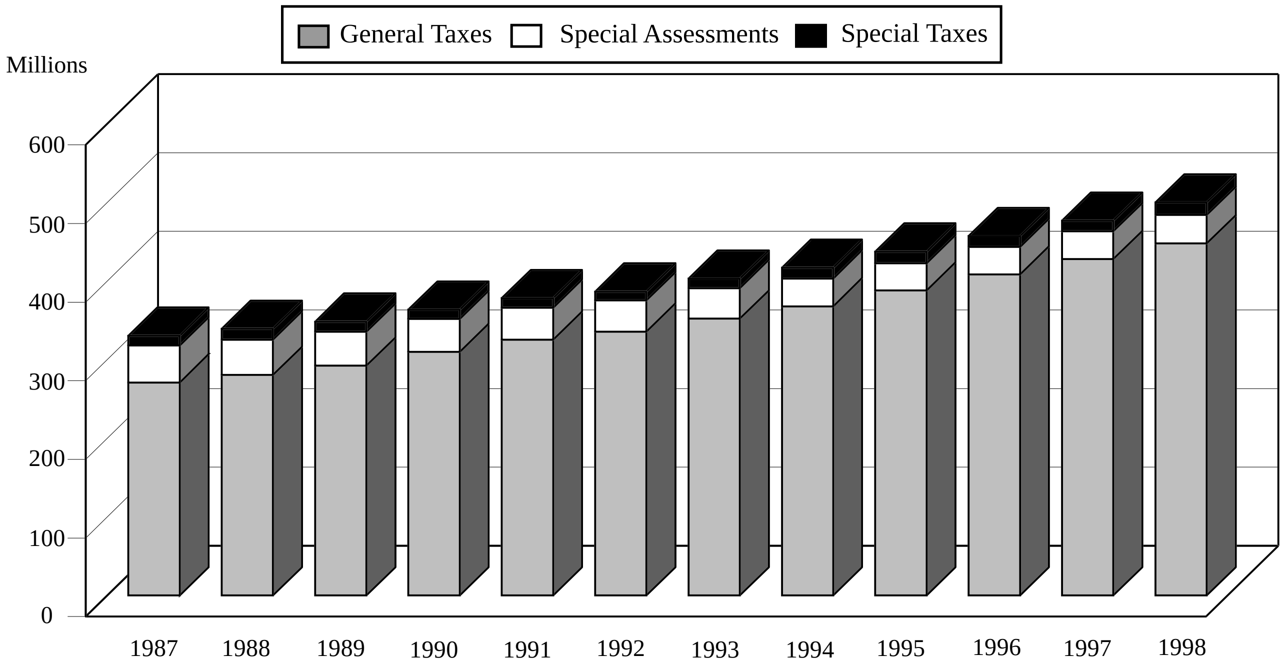
1994 Special Session. The legislature removed project size limitations as qualifications for the new or expanding business tax exemption. The change allowed large projects to qualify. The extended exemption for agricultural processors was changed from a partial exemption to either a partial or complete exemption. Legislators enabled a local government and any project operator to negotiate in lieu of property tax payments for a period of up to 20 years.

1995 Session. The legislature allowed for a levy increase of 2% for taxes payable in 1996 and 1997. The only increase allowed after 1998 without voter or legislative approval is property added to the tax rolls. Railroad personal property was exempted from property taxes. Before a city or county grants a new business exemption or payments in lieu of taxes, the affected school districts and townships must be consulted.

1997 Session. The legislature allowed for a 2% increase in the amount levied to match federal funds. The state water commission was to make payments in lieu of taxes for land acquired for the Devils Lake project. For agricultural land formula used by NDSU, the legislature extended the agricultural production data to a 10-year period for the 2000 assessment. A 50 percent expense allowance for agricultural revenue from irrigated cropland was made permanent. The temporary requirement that school districts and townships must be consulted before granting a new business property tax incentive expired. The income requirement for the farm residence exemption was defined as more than 50 percent from farming activities in any one of the preceding three years. Allowable nonfarm income increased to $40,000 during each of the preceeding three years. Park model trailer owners were required to pay the motor vehicle department a fee of $20 per year to qualify for exemption from taxation as a mobile home for tax years 1997 and 1998. The maximum general tax levy for fire protection districts was increased from ten to thirteen mills. The state engineer was given authority to take remedies when manmade objects situated in, on the bed of, or adjacent to a navigable lake are, or are imminently likely to be, a menace to life or property or public health or safety. The state engineer may assess costs of action against any property of the person responsible. The agricultural property definition for property platted after March 30, 1981, was changed. A pipeline and associated equipment, not including land, constructed after 1996 for the transportation or storage of CO^2 for use in enhanced recovery of oil or natural gas is tax exempt during construction and the first ten full taxable years.

General and Special Property Taxes Levied

Payable in 1987-1998



Year Payable	Total Taxes and Special Assessments	General Property Taxes: Real Estate [1]	General Property Taxes: Utilities [2]	Special Property Taxes: Special Taxes [3]	Special Property Taxes: Special Assessments
1987	330,240,496	251,129,688	19,682,197	12,437,459	46,991,152
1988	339,000,441	260,356,815	20,113,830	13,653,441	44,876,355
1989	348,129,931	271,263,513	20,814,867	12,757,598	43,293,953
1990	363,444,289	287,729,868	21,979,538	11,908,672	41,826,211
1991	378,112,315	302,019,374	23,055,273	12,200,941	40,836,727
1992	386,506,018	311,564,348	23,936,553	11,328,044	39,677,073
1993	402,914,653	327,349,278	24,618,898	12,069,372	38,877,105
1994	416,654,042	342,201,453	25,396,636	13,654,538	35,401,415
1995	437,343,742	359,535,845	28,443,569	14,827,706	34,536,622
1996	457,019,328	383,418,233	24,934,983	13,828,847	34,837,265
1997	476,555,423	401,882,360	25,794,788	13,458,548	35,419,727
1998	499,769,999	421,437,664	26,144,611	15,921,402	36,266,323

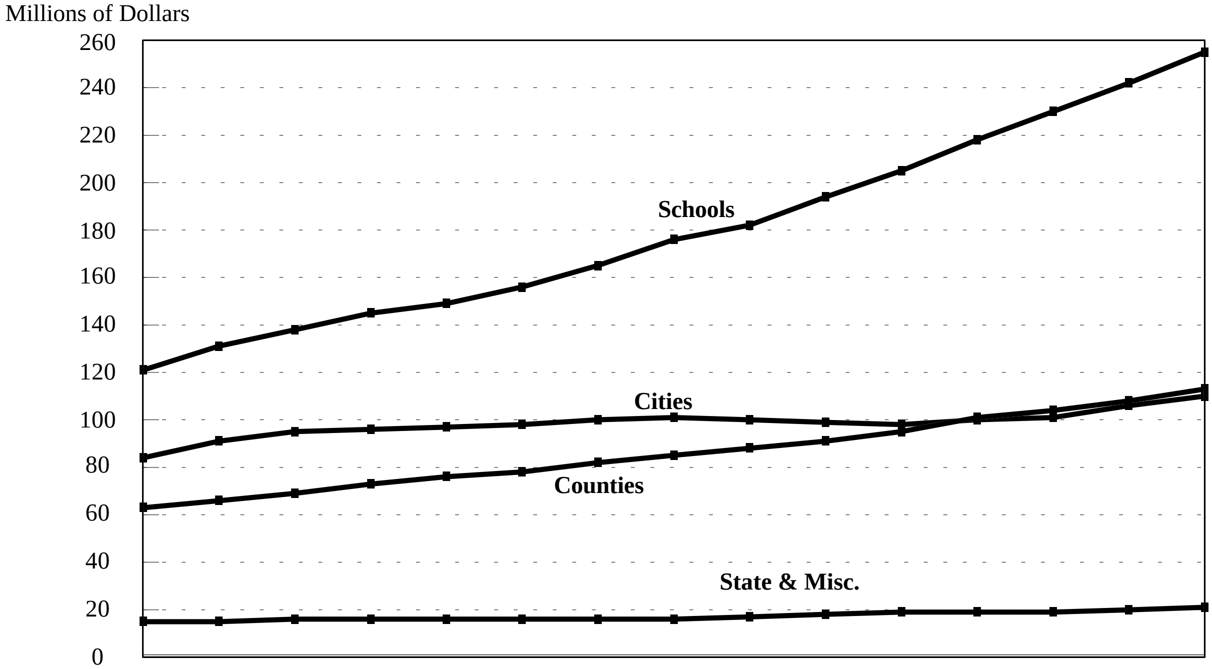
(1) Includes tax increments.

(2) Includes taxes on railroad property; telephone property (except mutual and cooperative); telegraph property; electric, gas and heating property (except cooperative and coal conversion); and pipeline property.

(3) Includes taxes from mutual and cooperative telephone companies, mobile homes, rural electric cooperatives, banks and building and loan associations, woodlands, and game management areas.

SOURCE: North Dakota Office of State Tax Commissioner, Property Tax Division, "Property Valuations and Property Taxes Levied in North Dakota." Transmission line taxes are collected by the State Tax Commissioner and are not included above.

General and Special Property Taxes by Taxing Districts
Payable in 1984 - 1998

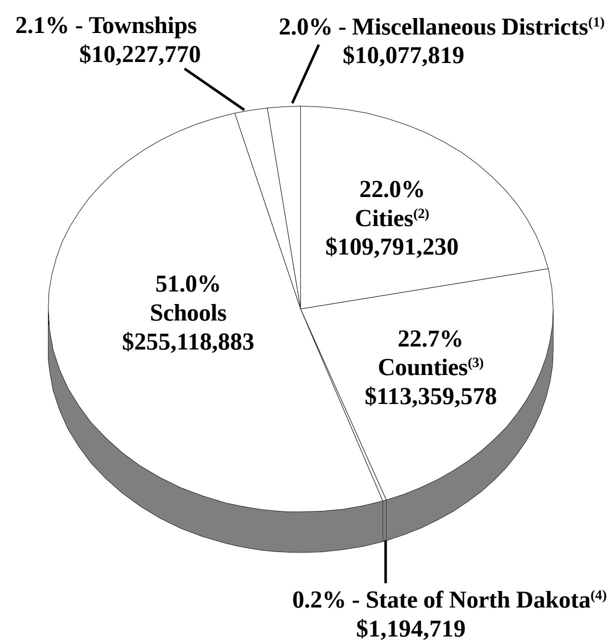


Year Payable	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Schools	121	131	138	145	149	156	165	176	182	194	205	218	230	242	255
Cities	84	91	95	96	97	98	100	101	100	99	98	100	101	106	110
Counties	63	66	69	73	76	78	82	85	88	91	95	101	104	108	113
State & Misc.	15	15	16	16	16	16	16	16	17	18	19	19	19	20	21

SOURCE: North Dakota Office of State Tax Commissioner, Property Tax Division, "Property Valuations and Property Taxes Levied in North Dakota."

Percent of Property Taxes by Taxing District
Levied in 1997 - Payable in 1998

GRAND TOTAL - $499,769,999



(1) Garrison Diversion Conservancy District, rural fire protection districts, hospital district, soil conservation districts, rural ambulance districts, recreation service districts, Southwest Water Authority and all special assessments for rural districts.

(2) Including city park districts, special assessments, and tax increments.

(3) Including county park districts, county library, county airport, water management districts, vector control, unorganized townships and board of county parks.

(4) Constitutional one mill levy for medical center at the University of North Dakota.

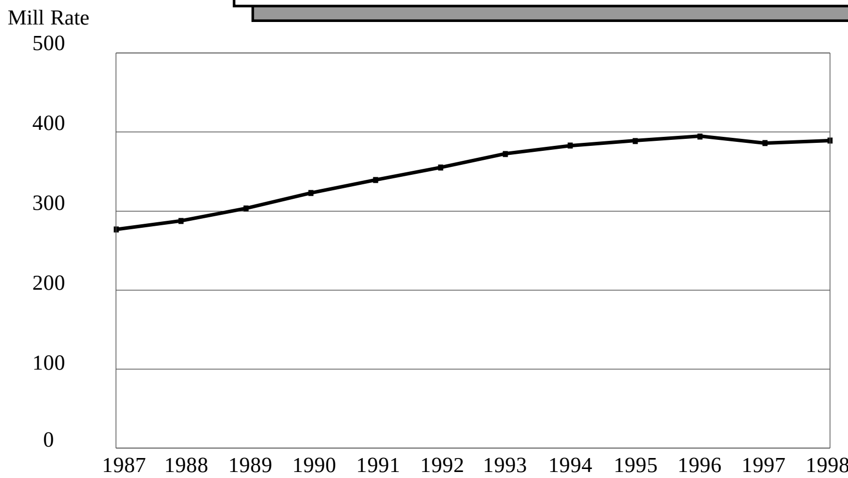
SOURCE: North Dakota Office of State Tax Commissioner, Property Tax Division, "1997 Property Valuations and Property Taxes Levied in North Dakota."

General Property Taxes by County - Payable in 1993-1997

County	1994 Total General Property Taxes	1995 Total General Property Taxes	Percent Change	1996 Total General Property Taxes	Percent Change	1997 Total General Property Taxes	Percent Change	1998 General Property Taxes	Percent Change
Adams	2,228,321	2,253,602	1.1	2,254,872	0.1	2,312,840	2.6	2,361,106	2.1
Barnes	7,448,974	7,773,214	4.4	8,381,501	7.8	8,647,757	3.2	8,804,276	1.5
Benson	2,954,265	3,197,701	8.2	3,422,967	7.0	3,515,420	2.7	3,597,535	2.3
Billings	544,720	570,199	4.7	616,350	8.1	536,666	-12.9	505,267	-5.9
Bottineau	4,783,076	4,843,484	1.3	5,124,798	5.8	5,366,374	4.7	5,665,714	5.6
Bowman	2,054,161	2,068,455	0.7	2,146,256	3.8	2,112,052	-1.6	2,098,000	-0.7
Burke	1,753,791	1,860,067	6.1	1,962,126	5.5	2,137,786	9.0	2,160,717	1.1
Burleigh	37,382,236	39,923,765	6.8	42,604,114	6.7	44,589,988	4.7	47,728,619	5.2
Cass	66,604,276	72,760,105	9.2	76,853,994	5.6	81,705,462	6.3	89,589,309	8.9
Cavalier	5,007,462	5,103,830	1.9	5,196,295	1.8	5,408,823	4.1	5,548,581	2.6
Dickey	3,469,214	3,731,239	7.6	4,257,506	14.1	4,197,167	-1.4	4,415,335	5.2
Divide	2,014,290	2,101,220	4.3	2,122,816	1.0	2,246,444	5.8	2,417,738	7.6
Dunn	2,834,812	3,020,027	6.5	3,051,744	1.1	3,059,262	0.2	3,122,700	2.1
Eddy	1,915,100	1,957,398	2.2	2,024,207	3.4	2,077,369	2.6	2,191,620	5.5
Emmons	3,350,718	3,433,100	2.5	3,538,408	3.1	3,606,889	1.9	3,673,731	1.9
Foster	2,505,997	2,686,185	7.2	2,801,728	4.3	2,942,392	5.0	3,037,862	3.2
Golden Valley	1,439,974	1,528,365	6.1	1,569,329	2.7	1,688,892	7.6	1,693,700	0.3
Grand Forks	37,655,344	40,273,286	7.0	42,169,059	4.7	44,170,276	4.7	44,239,890	-0.7
Grant	2,269,734	2,295,374	1.1	2,323,389	1.2	2,405,068	3.5	2,403,987	-0.0
Griggs	2,563,606	2,641,982	3.1	2,717,520	2.9	2,922,689	7.5	2,898,179	-0.8
Hettinger	2,285,220	2,324,874	1.7	2,358,641	1.5	2,415,120	2.4	2,537,794	5.1
Kidder	2,053,640	2,269,869	10.5	2,383,531	5.0	2,461,587	3.3	2,569,018	4.4
LaMoure	3,460,583	3,687,838	6.6	3,835,912	4.0	3,957,803	3.2	4,097,563	3.5
Logan	1,724,190	1,732,895	0.5	1,793,132	3.5	1,888,996	5.3	1,935,944	2.5
McHenry	3,609,172	3,647,134	1.1	3,825,045	4.9	3,931,820	2.8	4,038,651	2.7
McIntosh	2,205,217	2,328,658	5.6	2,498,707	7.3	2,557,694	2.4	2,576,671	0.7
McKenzie	2,971,540	3,116,911	4.9	3,183,313	2.1	3,443,948	8.2	3,310,318	-3.9
McLean	4.231,644	4,348,907	2.8	4,481,747	3.1	4,787,093	6.8	5,017,738	4.8
Mercer	4,168,209	4,203,733	0.9	4,366,743	3.9	4,509,415	3.3	4,783,009	6.1
Morton	13,863,219	14,602,069	5.3	15,315,211	4.9	16,449,814	7.4	17,378,814	5.7
Mountrail	3,583,002	3,759,827	4.9	3,884,588	3.3	4,029,499	3.7	4,220,413	4.7
Nelson	3,476,074	3,730,862	7.3	3,822,034	2.4	3,879,569	1.5	3,932,472	1.4
Oliver	1,028,153	1,045,392	1.7	1,134,499	8.5	1,218,618	7.4	1,238,078	1.6
Pembina	7,092,488	7,334,546	3.4	7,640,872	4.2	7,963,165	4.2	8,136,815	2.2
Pierce	3,271,233	3,377,700	3.3	3,514,086	4.0	3,655,818	4.0	3,832,193	4.8
Ramsey	7,080,866	7,433,805	5.0	7,708,256	3.7	8,102,055	5.1	8,549,449	4.6
Ransom	3,738,318	4,005,246	7.1	4,250,990	6.1	4,580,534	7.8	4,609,040	0.4
Renville	1,863,352	1,776,509	(4.7)	1,860,016	4.7	2,079,223	11.8	2,249,062	8.2
Richland	11,620,127	12,163,234	4.7	12,636,703	3.9	13,983,944	10.7	14,843,743	4.6
Rolette	2,661,949	2,896,714	8.8	2,952,509	1.9	3,003,999	1.7	3,229,768	7.5
Sargent	3,285,597	3,573,948	8.8	3,728,366	4.3	3,945,336	5.8	4,344,847	4.0
Sheridan	1,463,552	1,495,510	2.2	1,566,968	4.8	1,611,989	2.9	1,673,643	3.8
Sioux	532,053	581,215	9.2	668,342	15.0	697,461	4.4	721,106	3.4
Slope	723,926	768,393	6.1	814,793	6.0	835,645	2.6	851,031	1.8
Stark	10,904,178	11,030,379	1.2	11,277,642	2.2	11,560,234	2.5	11,885,253	2.8
Steele	2,972,187	3,024,688	1.8	3,075,245	1.7	3,151,581	2.5	3,180,675	0.9
Stutsman	12,648,729	13,233,327	4.6	13,887,335	4.9	14,125,607	1.7	14,530,549	2.7
Towner	2,993,205	3,094,910	3.4	3,185,784	2.9	3,296,242	3.5	3,295,963	-0.0
Traill	6,618,479	6,875,572	3.9	7,020,095	2.1	7,091,772	1.0	7,225,898	1.9
Walsh	9,024,189	9,178,594	1.7	9,519,489	3.7	9,961,578	4.6	10,602,143	6.4
Ward	23,940,670	25,074,034	4.7	26,604,227	6.1	27,252,782	2.4	29,938,865	9.9
Wells	3,749,646	3,942,641	5.2	4,005,307	1.6	4,272,934	6.7	4,430,742	3.7
Williams	11,973,409	12,296,883	2.7	12,224,672	-0.6	12,987,903	6.2	13,661,139	4.6
Total	367,598,089	387,979,413	5.5	406,163,779	4.7	425,340,394	4.7	447,582,274	4.7

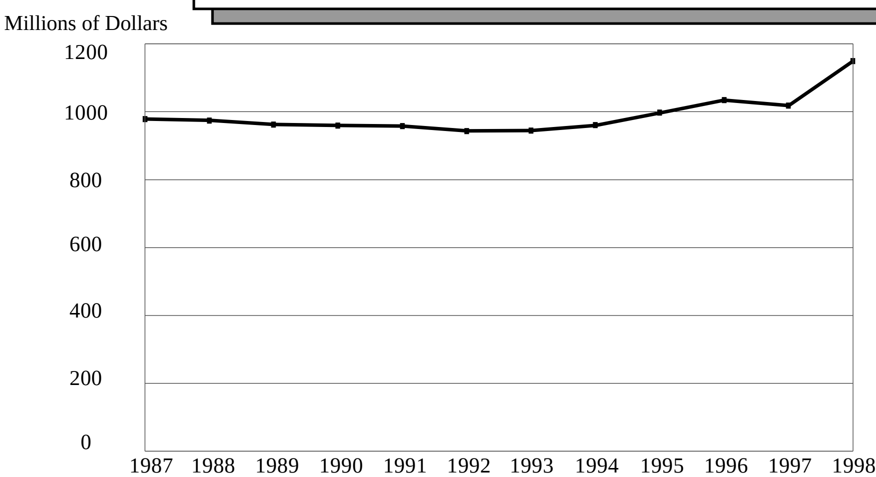
SOURCE: North Dakota Office of State Tax Commissioner. Property Tax Division, "Property Valuations and Property Taxes Levied in North Dakota."

Statewide Average Mill Rates - For Taxes Payable in 1987-1998



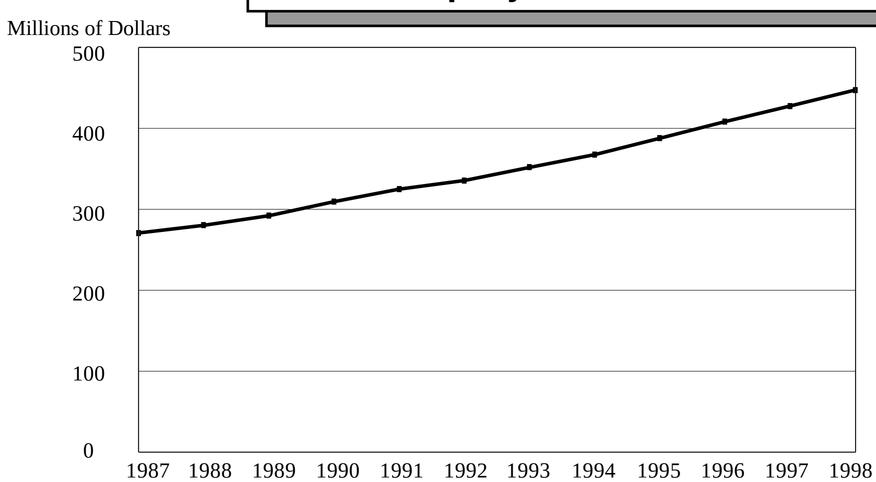
Year Payable	Average Mill Rate
1987	276.77
1988	287.78
1989	303.41
1990	322.72
1991	339.45
1992	355.45
1993	372.54
1994	382.84
1995	389.14
1996	394.73
1997	386.04
1998	389.32

Statewide Property Taxable Valuations - For Taxes Payable in 1987-1998



Year Payable	Taxable Value
1987	978,485,250
1988	974,592,455
1989	962,666,937
1990	959,683,146
1991	957,661,303
1992	943,865,654
1993	944,768,282
1994	960,176,210
1995	997,007,697
1996	1,034,523,718
1997	1,017,855,644
1998	1,149,656,119

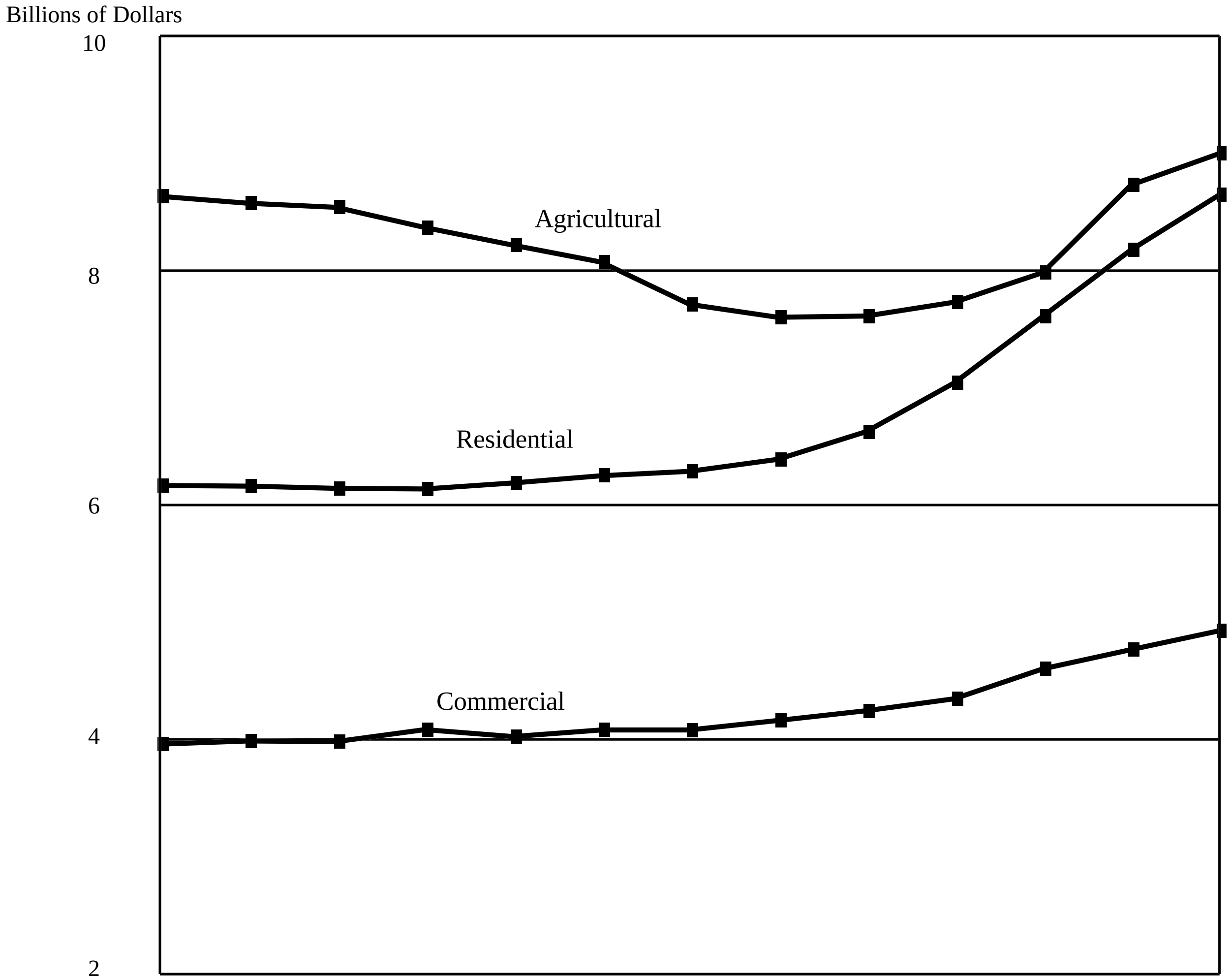
General Property Taxes Levied - For Taxes Payable in 1987-1998



Year Payable	Taxes
1987	270,811,885
1988	280,470,645
1989	292,078,379
1990	309,709,406
1991	325,074,648
1992	335,500,901
1993	351,968,176
1994	367,598,089
1995	387,979,413
1996	408,353,215
1997	427,677,147
1998	447,582,274

True and Full Value by Classification

For Taxes Payable in 1986 - 1998



Year Payable	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Agricultural	8.633	8.574	8.540	8.366	8.217	8.070	7.712	7.600	7.612	7.731	7.983	8.729	8.998
Residential	6.167	6.161	6.143	6.137	6.187	6.251	6.289	6.389	6.625	7.041	7.610	8.175	8.645
Commercial	3.961	3.988	3.984	4.084	4.025	4.083	4.082	4.163	4.246	4.349	4.602	4,768	4.928

Explanation of Terms and Trends

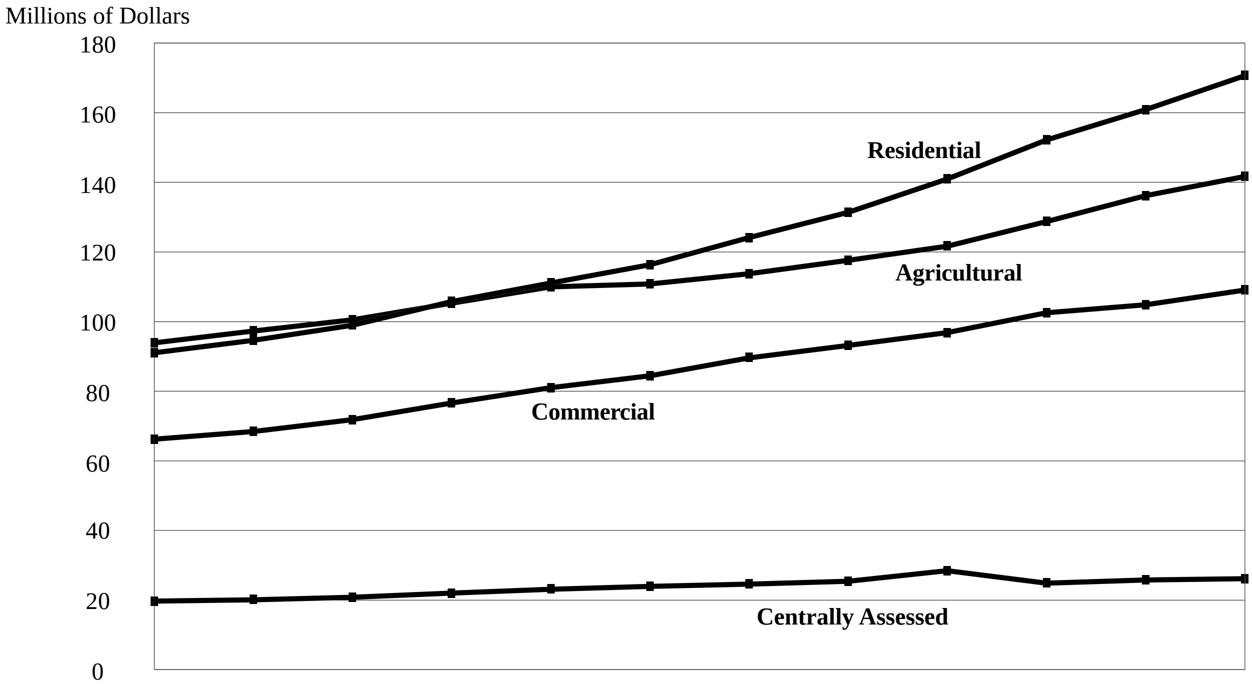
True and full value. For residential and commercial property "true and full value" is the local assessor's estimate of the market value of the property. For agricultural property, true and full value is based on agricultural production and is typically less than its market value or selling price.

Effective Rates. An annual sales ratio study measures how close "true and full values" are to actual selling prices for property. The results may be used to calculate an effective tax rate for each classification. The effective rate is the total tax divided by the total indicated selling price (see table on page 82).

Trends. During most of the past 12 years, mill rates were increasing while total taxable valuations were declining slightly (see preceding page). More recently, the statewide average mill rate is tending to level off while values are increasing. The table above shows how the total true and full value for each classification has begun to increase at an accelerating pace. Current economic conditions point towards further increases in true and full values. Agriculture values tend to go up when production and commodity prices are increasing. Other property values tend to go up when employment is high. Another factor is that total values of residential and commercial property include a slightly rising number of properties. The number of acres classified as agricultural land is down very slightly.

Charts in this section show statewide data. Please note that values and taxes for individual properties will depend on local economic conditions and other factors. The table above includes values for taxes payable in 1998. Tables that present information on taxes levied do not include 1998 because audits of county figures are not completed until after this booklet is published.

General Property Taxes by Classification
Payable in 1986 - 1997



Year Payable	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Residential	91.0	94.6	99.0	105.8	111.1	116.3	124.1	131.4	141.0	152.2	160.9	170.7
Agricultural	93.9	97.3	100.5	105.3	110.0	110.8	113.7	117.6	121.7	128.7	136.2	141.7
Commercial	66.2	68.4	71.8	76.6	81.0	84.4	89.6	93.2	96.8	102.5	104.8	109.1
Central	19.7	20.1	20.8	22.0	23.1	23.9	24.6	25.4	28.4	24.9	25.8	26.1
Total	270.8	280.5	292.1	309.7	325.1	335.5	352.0	367.6	388.0	408.4	427.7	447.6

SOURCE: North Dakota Office of State Tax Commissioner, Property Tax Division, "Property Valuations and Property Taxes Levied in North Dakota."

General Property Taxes Percent of Total by Classification
Payable in 1988 and 1999

	1988	1998
Residential	33.7%	38.1%
Agricultural	34.7%	31.7%
Commercial	24.4%	24.4%
Centrally Assessed	7.2%	5.8%

Effective Rates by Classification
Payable in 1985, 1995 and 1998

Property Classification	Effective Rate 1985	1995	1998
Residential	1.34%	1.88%	1.84%
Agricultural	0.59%	1.01%	1.04%
Commercial	1.50%	2.26%	2.23%
Centrally Assessed	1.08%	1.71%	1.77%
Total	**0.92%**	**1.52%**	**1.53%**

STATE COMPARISONS

North Dakota's property taxes are relatively moderate compared to those in other states, whether measured per capita, per $1,000 of personal income or by value of residence.

Rankings based on collections offer insight into overall tax levels. However, further analysis is needed to see the details of how state tax systems differ. For example, to show how property taxes vary by locality, tables on this page compare taxes on similarly valued homes in cities in the region. Property taxes also vary by property classification and different types of property may be taxed or excluded. Some states, such as Wyoming, use the property tax to tax mineral wealth while states like North Dakota levy separate severance taxes.

Property Taxes on a $70,000 Owner Occupied Home in North Dakota
Payable in 1998

City	Tax Amount*
Bismarck	$1,400
Devils Lake	$1,330
Dickinson	$1,370
Fargo	$1,370
Grand Forks	$1,470
Jamestown	$1,340
Mandan	$1,400
Minot	$1,150
Valley City	$1,375
Wahpeton	$1,440
West Fargo	$1,200
Williston	$1,470

* Calculations assume taxes are paid by February 15, allowing the taxpayer a 5% discount.

SOURCE: Survey by North Dakota Office of State Tax Commissioner, Property Tax Division, February 1998.

Property Taxes on a $70,000 Owner Occupied Home in Neighboring States and Provinces
Payable in 1998

SOUTH DAKOTA		MONTANA		MINNESOTA		MANITOBA[1]		SASKATCHEWAN[1]	
City	Tax Amount	City	Tax Amount	City	Tax Amount	City	Tax Amount	City	Tax Amount
Aberdeen	$ 1,440	Miles City	$1,320	Bemidji	$ 950	Winkler	$ 825	Estevan	$ 1,250
Rapid City	1,500	Great Falls	1,175	St. Cloud	850	Brandon	1,330	Moose Jaw	1,670
Sioux Falls	1,280	Billings	1,150	Minneapolis	1,020	Winnipeg	1,700	Regina	1,900

(1) Canadian amounts are in Canadian dollars.

SOURCE: Survey by North Dakota Office of State Tax Commissioner, Property Tax Division, March 1998.

Per Capita State & Local Property Taxes
1994

Rank	State	Amount
1	New Jersey	$1,482.90
2	New Hampshire	1,444.50
3	Connecticut	1,338.10
4	New York	1,244.10
5	Alaska	1,072.40
6	Rhode Island	1,052.60
7	Vermont	1,050.60
8	Michigan	1,050.10
9	Wisconsin	1,004.40
10	Massachusetts	984.50
11	Illinois	954.80
12	Maine	946.40
13	Wyoming	940.00
14	Nebraska	842.50
15	Montana	833.70
16	Oregon	814.10
17	Minnesota	798.00
18	Iowa	789.70
19	Florida	787.70
20	Washington	779.20
21	Texas	753.10
22	Indiana	739.70
23	Kansas	726.30
24	Colorado	724.20
25	Maryland	723.70
26	South Dakota	722.30
27	Virginia	670.20
28	Arizona	666.30
29	California	658.50
30	Pennsylvania	642.40
31	Ohio	628.80
32	Georgia	623.70
33	NORTH DAKOTA	583.50
34	Hawaii	532.70
35	South Carolina	518.00
36	Nevada	511.30
37	Idaho	511.00
38	Utah	491.10
39	North Carolina	462.00
40	Missouri	436.70
41	Tennessee	400.30
42	Mississippi	389.20
43	Delaware	370.50
44	West Virginia	359.50
45	Kentucky	318.70
46	Oklahoma	302.60
47	Louisiana	298.40
48	New Mexico	262.40
49	Arkansas	253.70
50	Alabama	195.90

SOURCE: Tax Foundation

Per $1,000 of Personal Income State & Local Property Taxes
1994

Rank	State	Amount
1	New Hampshire	62.10
2	New Jersey	53.20
3	Vermont	53.20
4	Maine	50.20
5	Wisconsin	49.00
6	New York	48.50
7	Michigan	48.30
8	Montana	47.80
9	Rhode Island	47.70
10	Wyoming	47.70
11	Alaska	46.50
12	Connecticut	45.30
13	Nebraska	42.00
14	Oregon	41.40
15	Iowa	41.20
16	Illinois	40.80
17	South Dakota	39.70
18	Texas	38.50
19	Massachusetts	38.20
20	Indiana	37.10
21	Florida	37.10
22	Minnesota	36.20
23	Arizona	36.00
24	Kansas	35.50
25	Washington	35.20
26	NORTH DAKOTA	33.50
27	Colorado	32.90
28	Georgia	31.40
29	Pennsylvania	30.50
30	Ohio	30.30
31	Virginia	30.00
32	Utah	29.60
33	South Carolina	29.60
34	Maryland	29.30
35	California	29.30
36	Idaho	29.00
37	Mississippi	25.40
38	North Carolina	23.80
39	Nevada	23.10
40	Hawaii	22.50
41	Missouri	21.90
42	West Virginia	21.80
43	Tennessee	20.80
44	Kentucky	18.30
45	Oklahoma	17.20
46	Louisiana	17.00
47	New Mexico	15.90
48	Delaware	15.30
49	Arkansas	15.20
50	Alabama	11.00

SOURCE: Tax Foundation

FUEL TAXES

CURRENT LAW

Imposition, Rates and Administration

Motor Vehicle Fuel Tax (Gasoline and Gasohol). A motor vehicle fuel tax of 20 cents per gallon is imposed on motor vehicle fuel sold to persons other than licensed dealers. Motor vehicle fuel includes gasoline and gasohol.

Fuel users who paid the 20 cent per gallon tax but used the fuel in nonlicensed equipment for agricultural or industrial purposes may obtain a partial refund.

Eight cents per gallon is withheld from farmers' refunds. Two cents is deposited into the Agricultural Fuel Tax Fund to promote the use of agricultural products, one cent is deposited into the Highway Tax Distribution Fund for incentives to North Dakota ethanol plants, four cents is deposited into an Agricultural Research Fund, and one cent is retained in the Township Highway Aid Fund.

One and one-half cents per gallon is withheld from industrial users' refunds. One-half cent is deposited into the Agricultural Fuel Tax Fund and one cent is retained in the Township Highway Aid Fund.

The state and political subdivisions may obtain a refund of 19 cents per gallon on all motor vehicle fuel used for construction, reconstruction, and maintenance of roads and highways. In this case, one cent is retained in the Township Highway Aid Fund.

Special Fuels Taxes. Special fuels include diesel, kerosene, heating fuel, compressed natural gas, liquefied petroleum (propane and butane), and any other fuel except gasoline or gasohol. A ***special fuels tax*** of 20 cents per gallon is imposed on all special fuel used in licensed vehicles.

In lieu of the 20 cent per gallon tax, a 2% ***special fuels excise tax*** is imposed on heating fuel and on fuel used in nonlicensed, off-road equipment for railroad, agricultural, and industrial purposes.

Fuel users who paid the 20 cents per gallon tax but used the fuel for heating or in nonlicensed, off-road equipment for railroad, agricultural, and industrial purposes, may obtain a partial refund. "Industrial purposes" include fuel used by state and local government.

One cent per gallon is retained for the Township Highway Aid Fund. The 2% excise tax is assessed in lieu of the per gallon tax and is deducted from the refund. The 2% excise tax is never refundable.

Aviation Fuel Tax. The aviation fuel tax is imposed on the sale of aviation gasoline and jet fuels. The tax rate is 8 cents per gallon. Users qualify for a refund of the 8 cents per gallon tax. If a refund is granted, the fuel then becomes subject to a 4% excise tax on the purchase price of the fuel. The 4% excise tax is deducted from the refund claim at the time a refund is made.

HISTORICAL OVERVIEW

Significant Changes in Law

1977 Session. The motor vehicle fuel tax and the special fuels tax rates were increased from 7 cents to 8 cents per gallon.

1979 Session. The legislature enacted a 4 cents per gallon tax rate for alcohol blended fuel.

1983 Session. The motor vehicle fuel tax and the special fuels tax rates were raised from 8 cents to 13 cents per gallon. These rates were reduced for alcohol blended fuel by 4 cents per gallon through December 31, 1983; 5 cents per gallon for calendar year 1984; 6 cents per gallon for calendar year 1985; and 4 cents per gallon from January 1, 1986 through June 30, 1992.

1985 Session. The reduction for alcohol blended fuel was amended to 8 cents per gallon for July 1, 1985 through June 30, 1987 and 4 cents per gallon for July 1, 1987 through December 31, 1992.

1987 Session. The legislature increased motor vehicle fuel tax and special fuels tax rates from 13 cents to 17 cents per gallon.

1989 Session. The legislature increased the motor vehicle fuel tax rate from 17 cents to 20 cents per gallon and the special fuels tax rate from 17 cents to 19 cents per gallon. The rate reduction for alcohol blended fuel was suspended for July 1, 1989 through June 30, 1991 and it was replaced with an ethanol production subsidy. An additional 1½ cents was withheld from farmers' refunds and deposited in the Agricultural Fuel Tax Fund. Enabling legislation was passed to allow the director of the new Department of Transportation to enter the International Fuel Tax Agreement (IFTA) for base state fuel tax licensing and reporting. The State Tax Commissioner retained non-IFTA importer for use tax administration.

1989 Referral Election. The tax rate increases passed by the 1989 Legislature were rejected in a Special Election. The tax rates for the motor vehicle fuel tax and the special fuels tax remained 17 cents per gallon.

1991 Session. An additional 2 cents per gallon was withheld from farmers' refunds and deposited in the Highway Tax Distribution Fund for incentives to North Dakota ethanol plants. The rate reduction for alcohol blended fuel was eliminated.

1993 Session. The legislature provided for a "triggered" increase in the motor vehicle fuel tax and special fuel tax depending on the availability of federal highway matching funds. Under this provision the rate increased from 17 cents to 18 cents per gallon for the period December 1, 1993 through December 31, 1995.

1995 Session. The legislature continued to "trigger" changes in the motor vehicle fuel tax and special fuel tax rates depending on the availability of additional federal highway matching funds. Under this provision, the rate increased to 20 cents per gallon for the period January 1, 1996 through December 31, 1997. (If no additional federal funds had been available, the rate would have returned to 17 cents per gallon.)

1997 Session. The legislature provided for a permanent $.20 per gallon motor vehicle fuel tax and special fuel tax through December 31, 1999 and added a provision to the special fuel tax chapter allowing the 2% special fuel excise tax to be charged on fuel dyed for federal motor fuel tax exemption purposes. The legislature also revised refund requirements to allow refunds of motor vehicle fuel tax and special tax to industrial fuel users when the fuel was used in nonlicensed equipment on publicly funded projects. An additional four cents per gallon is withheld from agricultural consumer claims for refund for deposit into an agricultural research fund, and the amount withheld for ethanol production incentives was lowered from two cents per gallon to one cent per gallon.

Distribution of Revenue

Tax Types
Motor Vehicle Fuel Tax (20¢ per gallon): 19¢ Highway Tax Distribution Fund 1¢ Township Highway Aid Fund Withheld from farmers' refunds (8¢ per gallon): 1¢ Township Highway Aid Fund 2¢ Agricultural Fuel Tax Fund 1¢ Highway Tax Distribution Fund 4¢ Agricultural Research Fund Withheld from Industrial users' refunds (1½¢ per gallon): 1¢ Township Highway Aid Fund ½¢ Agricultural Fuel Tax Fund
Special Fuels Tax (20¢ per gallon): 19¢ Highway Tax Distribution Fund 1¢ Township Highway Aid Fund Withheld from refunds (1¢ per gallon plus 2% tax): 1¢ Township Highway Aid Fund Fuel which is withheld from refund is subject to 2% special fuels excise tax
Special Fuels Excise Tax (2% of sales price): 100% Highway Tax Distribution Fund
Aviation Fuel Tax (8¢ per gallon): 8¢ Aeronautics Commission Special Fund Withheld from refunds: Aviation fuel excise tax
Aviation Fuel Excise Tax (4% of purchase price): 100% Aeronautics Commission Special Fund
Highway Tax Distribution Fund
• 63% allocated to state highway purposes • 37% allocated to the counties and cities

Reference: N.D.C.C. chs. 57-43.1, 57-43.2, 57-43.3; N.D.C.C. §§ 54-27-19, 54-27-19.1; and North Dakota Constitution, Article X, Section 11.

Fuel Taxes and Fees Disbursements

Fiscal Year	Total Disbursement	Highway Distribution Fund	Township Highway Aid Fund	Agricultural Fuel Tax Fund	Agricultural Research Fund	Aeronautics Commission	State General Fund	Petroleum Cleanup Fund	Refund Reserve & Cash Bonds
1988	78,187,445	66,665,349	4,641,917	195,496		452,069	417,650		5,814,963
1989	78,393,814	66,196,448	4,578,443	163,381		516,352	417,650		6,521,540
1990	82,675,857	69,271,310	4,561,287	366,906		540,981	662,590	1,360,631	5,912,152
1991	83,183,847	68,978,784	4,529,967	573,295		574,101	679,350	1,326,826	6,521,523
1992	82,544,156	72,320,164	4,601,113	574,740		573,919	694,104	3,800	3,776,317
1993	85,392,680	74,339,075	4,730,203	554,004		543,864	706,112	1,305	4,518,118
1994	89,953,107	79,058,285	4,885,468	535,407		557,334	727,363	107	4,189,142
1995	94,164,360	82,897,311	4,953,507	496,129		636,142	717,795	104	4,463,372
1996	101,399,651	90,701,935	5,116,927	453,723		671,339	753,321	2,291	3,700,115
1997	110,151,220	98,959,035	5,194,170	388,576		418,576	756,197	0	4,434,327
1998	112,566,368	98,871,799	5,337,068	380,824	606,790	617,768	759,724	0	5,992,395

SOURCE: State Treasurer's Office.

Motor Vehicle Fuels - Gallons Taxed

Fiscal Year	Total	Refund	Net
1994	343,392,224	22,147,012	365,539,236
1995	362,021,194	22,226,187	339,795,007
1996	367,849,468	19,782,777	348,066,691
1997	368,993,040	17,578,357	351,414,683
1998	365,493,671	20,189,232	345,304,439

SOURCE: Office of State Tax Commissioner.

Special Fuels - Gallons Taxed

Fiscal Year	Total	Refund	Net
1994	469,982,807	15,405,040	454,577,767
1995	478,626,132	12,916,314	465,709,818
1996	511,189,772	13,148,750	498,041,022
1997	517,394,766	16,525,689	500,869,077
1998	504,225,504	12,451,250	491,774,254

SOURCE: Office of State Tax Commissioner.

State Motor Fuel Tax Rates

January 1, 1998

	GASOLINE			DIESEL FUEL			GASOHOL			
	Excise	Fee/Tax	Total	Excise	Fee/Tax	Total	Excise	Fee/Tax	Total	Notes
Alabama	16.0	2.0	18.0	17.0	2.0	19.0	16.0	2.0	18.0	Inspection fee
Alaska	8.0		8.0	8.0		8.0	0.0		0.0	
Arizona	18.0		18.0	18.0		18.0	18.0		18.0	/3
Arkansas	18.5	0.2	18.7	18.5	0.2	18.7	18.5	0.2	18.7	Environment surcharge
California/1	18.0		18.0	18.0		18.0	18.0		18.0	Sales tax applicable
Colorado	22.0		22.0	20.5		20.5	22.0		22.0	
Connecticut	36.0		36.0	18.0		18.0	35.0		35.0	
Delaware	23.0		23.0	22.0		22.0	23.0		23.0	Plus 0.5% GRT /5
Florida/1	4.0	8.8	12.8	4.0	8.8	12.8	4.0	8.8	12.8	Sales tax added to excise /2
Georgia	7.5		7.5	7.5		7.5	7.5		7.5	Sales tax applicable (3%)
Hawaii/1	16.0		16.0	16.0		16.0	16.0		16.0	Sales tax applicable
Idaho	25.0	1	26.0	25.0	1	26.0	22.5	1	23.5	Clean water tax /7
Illinois/1	19.0	0.3	19.3	21.5		21.5	19.0		19.0	Sales tax appl., env. fee /3
Indiana	15.0		15.0	16.0		16.0	15.0		15.0	Sales tax applicable /3
Iowa	20.0		20.0	22.5		22.5	19.0		19.0	
Kansas	18.0		18.0	20.0		20.0	18.0		18.0	
Kentucky	15.0	1.4	16.4	12.0	1.4	13.4	15.0	1.4	16.4	Environmental fee /4 /3
Louisiana	20.0		20.0	20.0		20.0	20.0		20.0	
Maine	19.0		19.0	20.0		20.0	19.0		19.0	
Maryland	23.5		23.5	24.25		24.3	23.5			
Massachusetts	21.0		21.0	21.0		21.0	21.0		21.0	/4
Michigan	19.0		19.0	15.0		15.0	19.0		19.0	Sales tax applicable
Minnesota	20.0		20.0	20.0		20.0	20.0		20.0	
Mississippi	18.0	0.4	18.4	18.0	0.4	18.4	18.0	0.4	18.4	Environmental fee
Missouri	17.0	0.05	17.05	17.0	0.05	17.05	15.0	0.05	15.05	Inspection fee
Montana	27.0		27.0	27.75		27.75	27.0		27.0	
Nebraska	24.6	0.6	25.2	24.6	0.6	25.2	24.6	0.6	25.2	Petroleum fee /5
Nevada /1	23.0		23.00	27.0		27.0	23.0		23.00	
New Hampshire	18.0	0.2	18.2	18.0	0.2	18.2	18.0	0.2	18.2	Oil discharge cleanup fee
New Jersey	10.5		10.5	13.5		13.5	10.5		10.5	Plus a 2.75% GRT
New Mexico	17.0	1.0	18.0	18.0	1.0	19.0	17.0	1.0	18.0	Petroleum loading fee
New York	8.0		8.0	8.0		8.0	8.0		8.0	Sales tax applicable /3
North Carolina	22.6		22.6	22.6		22.6	22.6		22.6	/4
North Dakota	20.0		20.0	20.0		20.0	20.0		20.0	
Ohio	22.0		22.0	22.0		22.0	22.0		22.0	Plus 3 cents commercial
Oklahoma	16.0	1.0	17.0	13.0	1.0	14.0	16.0	1.0	17.0	Environmental fee
Oregon /1	24.0		24.0	24.0		24.0	24.0		24.0	
Pennsylvania	12.0	13.9	25.9	12.0	18.8	30.8	12.0	13.9	25.9	Oil franchise tax /3
Rhode Island	28.0	1	29.0	28.0	1	29.0	28.0	1	29.0	/4 LUST tax
South Carolina	16.0		16.0	16.0		16.0	16.0		16.0	
South Dakota /1	21.0		21.0	21.0		21.0	19.0		19.0	
Tennessee /1	20.0	1.0	21.0	17.0	1.0	18.0	20.0	1.0	21.0	Special petroleum tax
Texas	20.0		20.0	20.0		20.0	20.0		20.0	
Utah	24.5		24.5	24.5		24.5	24.5		24.5	
Vermont	19.0	1.0	20.0	16.0	1.0	17.0	15.0	1.0	16.0	Petroleum cleanup fee /6
Virginia /1	17.5		17.5	16.0		16.0	17.5		17.5	/6
Washington	23.0		23.0	23.0		23.0	23.0		23.0	0.5% privilege tax
West Virginia	20.5	4.85	25.35	20.5	4.85	25.35	20.5	4.85	25.35	Sales tax added to excise
Wisconsin	24.8		24.8	24.8		24.8	24.8		24.8	/5
Wyoming	8.0	1	9.0	8.0	1	9.0	8.0	1	9.0	LUST tax
Dist. of Columbia	20.0		20.0	20.0		20.0	20.0		20.0	
Federal	18.3		18.3	24.3		24.3	13.0		13.0	/7

SOURCE: Compiled by Federation of Tax Administrators from various sources.

(1) Tax rates do not include local option taxes. In AL, 1-3 cents; CA, 1 cent; HI, 8 to 11.5 cent; IL, 5 cents in Chicago and 6 cents in Cook county (gasoline only); NV, 1 to 10 cents; OR, 1 to 2 cents; SD and TN, 1 cent; and VA 2%.

(2) An additional tax is imposed equal to two-thirds of the local rate for gasoline and gasohol, and 50% for diesel (79% in 1992). Local rates vary from 1 to 7 cents.

(3) Carriers pay an additional surcharge equal to AZ-8 cents, IL-6.3 cents(g) 6.0 cents(d), IN-11 cents, KY-2%(g) 4.7%(d), NY-22.21(g) 23.21(d), PA-6 cents.

(4) Tax rate is based on the average wholesale price and is adjusted quarterly. The actual rates are: KY, 9%; MA, 19.1%; NC, 17 cents + 7%; and RI, 13%.

(5) Portion of the rate is adjustable based on maintenance costs, sales volume, or cost of fuel to state government.

(6) Large trucks pay a higher tax, VT-total 25 cents per gallon, VA-additional 3.5 cents.

(7) Tax rate is reduced by the percentage of ethanol used in blending (reported rate assumes the maximum 10% ethanol).

CIGARETTE AND TOBACCO TAXES

CURRENT LAW

CIGARETTE TAX

Imposition and Rates

The cigarette tax is levied at two different tax rates. Cigarettes weighing less than three pounds per thousand are taxed at 22 mills per cigarette, or 44¢ for a common package of 20, and 55¢ for a package of 25. Cigarettes weighing more than three pounds per thousand are taxed at 22½ mills per cigarette.

Both wholesalers and dealers must be licensed by the Attorney General. Wholesalers pay the tax with monthly reports filed with the State Tax Commissioner. For administrative compensation, wholesalers who file and pay on time may deduct 1½% of the tax due, up to a maximum of $100 per month.

Distribution of Revenue

Three cents of the 44¢ per package are distributed to the cities based on population and the remainder goes to the State General Fund. Of the 55¢ on the larger packages, 3¾¢ go to the cities with the remainder to the State General Fund.

Reference: North Dakota Century Code ch. 57-36.

TOBACCO PRODUCTS TAX

Imposition and Rates

All tobacco products other than cigarettes, such as pipe tobacco, chewing tobacco and snuff, are subject to a tobacco products tax. The tax rate is 28% of the wholesale purchase price. The tobacco products tax is administered in a manner similar to the cigarette tax.

Distribution of Revenue

Revenue from the tobacco products tax is placed in the State General Fund.

Reference: North Dakota Century Code ch. 57-36

TRIBAL CIGARETTE AND TOBACCO TAX

The Standing Rock Sioux Tribe levies a cigarette and tobacco tax on all American Indian retailers operating in the Standing Rock Sioux Reservation. The tax rates are identical to the state tax rates. The State Tax Commissioner acts as the agent of the tribe to collect the tax. Seventy-five percent of collections, less a 3% administrative fee, is returned to the tribe. Twenty-five percent plus the administrative fee is deposited in the State General Fund.

HISTORICAL OVERVIEW

Significant Changes in Law

1983 Session. The legislature increased the cigarette tax from 6 mills to 9 mills per cigarette. This increased the cigarette tax from 12¢ to 18¢ per package of 20.

1987 Session. The cigarette tax was increased from 9 to 13½ mills per cigarette, or from 18¢ to 27¢ per package of 20. The tobacco products tax was increased from 11% to 20% of the wholesale purchase price.

1989 Session. The cigarette tax was increased from 13½ to 15 mills per cigarette, or from 27¢ to 30¢ per package of 20. The tobacco products tax was increased from 20% to 25% of the wholesale purchase price.

1991 Session. The cigarette tax was decreased from 15 mills to 14½ mills per cigarette, or from 30¢ to 29¢ per package of 20. The tobacco products tax was decreased from 25% to 22% of the wholesale purchase price. Cigarette stamp requirements were repealed and replaced with monthly reports and payments.

1993 Session. The cigarette tax was increased from 14½ to 22 mills per cigarette, or from 29¢ to 44¢ per package of 20. The tobacco products tax was increased from 22% to 28% of the wholesale purchase price.

1993 Agreement. The State Tax Commissioner and the Standing Rock Sioux Tribe signed a unique agreement to allow the commissioner to act as an agent of the tribe for the collection of a tribal cigarette and tobacco tax.

Cigarette Tax and Tobacco Tax Collections

Fiscal Year	Total Collections	Tobacco Tax (General Fund)	Cigarette Tax (General Fund)	Cigarette Tax (Cities)	Cigarette and Tobacco Tax (Tribal)
1987	11,256,788	348,833	9,091,286	1,816,669	
1988	16,635,247	626,438	14,311,578	1,697,231	
1989	15,267,308	641,194	13,001,013	1,625,101	
1990	16,244,815	799,282	13,924,594	1,520,939	
1991	16,517,821	903,265	14,052,912	1,561,644	
1992	12,461,881	1,123,800	11,338,081	1,307,730	
1993	16,658,763	1,259,362	13,806,364	1,593,037	
1994	23,932,732	1,419,381	20,958,608	1,497,925	56,818
1995	24,093,508	1,512,791	20,974,207	1,532,674	73,835
1996	24,403,150	1,634,213	21,149,970	1,545,546	73,421
1997	23,872,859	1,746,105	20,554,980	1,502,113	69,661
1998	24,293,434	1,847,894	20,846,708	1,523,298	75,534
1999 est.	24,040,000	1,922,000	20,610,000	1,508,000	

* City and Tribal portions are forecasted jointly.

SOURCE: North Dakota Office of State Tax Commissioner and estimates prepared with the Office of Management and Budget.

Comparison of State Cigarette Taxes

January 1, 1998

State	Cents Per Pack	State	Cents Per Pack	State	Cents Per Pack
Alaska	100	Vermont	44	Colorado	20
Washington	82.5	Texas	41	Louisiana	20
Hawaii [3]	80	California	37	Mississippi	18
New Jersey [1]	80	New Hampshire	37	Montana	18
Massachusetts	76	Iowa	36	Missouri [1]	17
Michigan	75	Maryland	36	West Virginia	17
Maine	74	Nevada	35	Alabama [1]	16.5
Rhode Island	71	Nebraska	34	Indiana	15.5
Oregon	68	Florida	33.9	Tennessee [1] [2]	13
Dist. of Columbia	65	South Dakota	33	Georgia	12
Wisconsin	59	Arkansas	31.5	Wyoming	12
Arizona	58	Pennsylvania	31	South Carolina	7
Illinois [1]	58	Idaho	28	North Carolina	5
New York [1]	56	Delaware	24	Kentucky [2]	3
Utah	51.5	Kansas	24	Virginia [1]	2.5
Connecticut	50	Ohio	24		
Minnesota	48	Oklahoma	23		
NORTH DAKOTA	44	New Mexico	21	U.S. (median)	34.0

SOURCE: Compiled by Federation of Tax Administrators from various sources.

(1) Counties and cities may impose an additional tax on a pack of cigarettes in AL, 1¢ to 6¢; IL, 10¢ to 15¢; MO, 4¢ to 7¢; TN, 1¢; and VA, 2¢ to 15¢.
(2) Dealers pay an additional enforcement and administrative fee of 0.1¢ per pack in KY and 0.05¢
(3) HI, cigarette tax will increase to $1.00 per pack on 6/30/98.

Comparison of State Tobacco Products Taxes

January 1, 1998

State	Tax Rate/Base [1]
Alabama	
Cigars [2]	1.5¢-20.25¢/10 cigars
Tobacco/Snuff	0.6¢-4.4¢/ounce
Alaska	75% Wholesale Price
Arizona	
Cigars [2]	6.5¢-64¢/10 cigars
Tobacco/Snuff	6.5¢/ounce
Arkansas	23% Manufactures Price
California [3]	29.4% Wholesale Price
Colorado	20% Manufactures Price
Connecticut	20% Wholesale Price
Delaware	15% Wholesale Price
Florida	
Tobacco/Snuff	25% Wholesale Price
Georgia	
Little Cigars	2¢/10 cigars
Other Cigars	13% Wholesale Price
Hawaii	40% Wholesale Price
Idaho	40% Wholesale Price
Indiana	15% Wholesale Price
Illinois	18% Wholesale Price
Iowa	22% Wholesale Price
Kansas	10% Manufactures Price
Louisiana	
Cigars	8%-20% Manufacture Price
Tobacco/Snuff	33% Manufactures Price
Maine	
Chewing Tob./Snuff	62% Wholesale Price
Smoking Tob./Cigars	16% Wholesale Price
Massachusettes	75% Wholesale Price
Michigan	16% Wholesale Price
Minnesota	35% Wholesale Price
Mississippi	15% Manufactures Price
Missouri	10% Manufactures Price
Montana	12.5% Manufactures Price
Nebraska	15% Wholesale Price
Nevada	30% Wholesale Price
New Hampshire	33.4% Wholesale Price
New Jersey	48% Wholesale Price
New Mexico	25% Product Value
New York	20% Wholesale Price
North Carolina	2% Manufacture Price
NORTH DAKOTA	28% Wholesale Price
Ohio	17% Wholesale Price
Oklahoma	
Cigars [2]	9¢-30¢/10 cigars
Tobacco/Snuff	30%-40% factory list price
Oregon	65% Wholesale Price
Rhode Island	20% Wholesale Price
South Carolina	
Cigars [2]	2.5¢-20¢/10 cigars
Tobacco/Snuff	5%-36% Manufacture Price
South Dakota	10% Wholesale Price
Tennessee	6% Wholesale Price
Texas	
Cigars [2]	1¢-15¢/10 cigars
Tobacco/Snuff	35.213% Manufactures Price
Utah	35% Manufactures Price
Vermont	41% Manufactures Price
Washington	74.9% Wholesale Price
Wisconsin	20% Wholesale Price

SOURCE: Federation of Tax Administrators

(1) The volume based tax rates were converted to cents per 10 cigars or per ounce for consistency.
(2) Tax rate on cigars varies by the value of their value.
(3) Tax rate is adjusted annually by the state.

ESTATE TAX

CURRENT LAW

Imposition and Rate

The estate tax is a tax on the value of an estate transferred at death.

North Dakota's estate tax is perpetually "federalized". North Dakota's definition of a deceased person's "taxable estate" is identical to the federal definition and North Dakota recognizes all federal exemptions and deductions.

North Dakota's estate tax is equivalent to the credit for state death taxes allowed on the federal estate tax return (or a percentage of that credit equal to the percentage of property located in North Dakota). On the federal return, the credit for state death taxes is allowed as a credit against the federal tax liability. The estate pays the amount of this credit to the state. This method of determining state estate taxes ensures that estates pay no more in total estate taxes than the estate's federal tax liability. The tax is payable without interest for 15 months from the date of death.

The estate tax is administered and collected by the State Tax Commissioner.

Distribution of Revenue

Revenue from the tax is distributed on a quarterly basis by the state to the counties and cities in which the property of the estate is located.

Reference: N.D.C.C. Chapter 57-37.1.

HISTORICAL OVERVIEW

Significant Changes in Law

1975 Session. The legislature enacted the current estate tax law which provided that the definition of taxable estate is based on the federal definition of taxable estate. The North Dakota estate tax was determined by subtracting the federal tax paid from the federal taxable estate, then computing a tax using a tax table established in the new law.

1977 Session. The legislature allowed the following state exemptions and deductions to the value of the federal taxable estate: an exemption of $200,000, a deduction for federal estate taxes paid, and an exemption for certain gifted property. The legislature also provided that the tax was either the amount of tax credit for state death taxes on the federal return, or a tax computed by use of a tax table, whichever was greater.

1979 Session. The rate table was repealed and the law was amended so that the state estate tax is equal to the credit for state death taxes on the federal estate tax return.

1991 Session. The legislature repealed the automatic estate tax lien.

1997 Session. The legislature repealed the requirement for depositories to file an inventory of the contents of a safe deposit box and for the filing of a notice of transfer of the decedent's assets.

Estate Tax Distributions

Calendar Year	Total Distribution Counties and Cities
1993	1,487,791
1994	899,225
1995	2,292,775
1996	3,887,917
1997	5,966,199

SOURCE: State Treasurer's Office.

State Inheritance Tax Rates and Exemptions - December 31, 1996

	Rate Percent			Exemptions (Thousands)			
State	Spouse, Child or Parent	Brother or Sister	Other than Relative	Spouse	Child/ Parent	Brother or Sister	Other than Relative
Connecticut	2-8	4-10	8-14	All	50	6	1
Delaware	2-4	5-10	10-16	70	25	5	1
Indiana	1-10	7-15	10-20	All	5/10	0.5	0.1
Iowa	1-8	5-10	10-15	All	50/15	None	None
Kansas	1-5	3-12.5	10-15	All	30	5	None
Kentucky	2-10	2-10	6-16	All	(a)	(a)	0.5
Louisiana	2-3	5-7	5-10	25	25	1	0.5
Maryland	1	10	10	(b)	(b)	0.15	0.15
Montana	2-8	4-16	8-32	All	All/7	1	None
Nebraska	1	1	6-18	All	10	2	0.5
New Hampshire	1	18	18	All	All	None	None
New Jersey	Exempt	11-16	15-16	All	All	25	0.5
North Carolina	1-12	4-16	8-17	All	26.15 credit	None	None
Pennsylvania	6	15	15	(c)	2	None	None
South Dakota	3-15	4-20	6-30	All	30	0.5	0.1
Tennessee	5.5-9.5	5.5-9.5	5.5-9.5	600	600	600	600
Texas	(d)	(d)	(d)	(d)	(d)	(d)	(d)

(a) For all other, the exemption is the greater of the statutory amount or (1) one-fourth of each beneficiary's interest, if the decedent dies between July 1, 1995 and June 30, 1996; (2) one-half of each beneficiary's interest, if the decedent dies between July 1, 1996 and June 30, 1997; (3) three-fourths of each beneficiary's interest, if the decedent dies between July 1, 1997 and June 30, 1998; or (4) each beneficiary's total inheritable interest, if the decedent dies after June 30, 1998.
(b) No tax on transfers of real property and first $100,000 of property other than real property.
(c) For a surviving spouse, the rate is three percent for estates of decedents dying on or after January 1, 1998.
(d) The amount due is the portion of the federal credit attributable to property in Texas. Only estates that have federal estate tax liabilities are subject to the inheritance tax.

Note: In addition to an inheritance tax, all states listed also levy an estate tax, generally to ensure full absorbtion of the federal credit.
SOURCE: Tax Foundation from Commerce Clearing House and respective State Revenue Departments.

State Estate Tax Rates and Exemptions - December 31, 1996

State (a)	Rates (On Net Estate After Exemptions) (b)	Maximum Rate Applies Above	Exemption
* See note below	Maximum Federal credit (c), (d)	$10,040,000	$60,000 (c)
Massachusetts	5% on first $50,000 to 16%	$4,000,000	$600,000
Mississippi	1% on first $60,000 to 16%	$10,000,000	$600,000
New York	2% on first $50,000 to 21%	$10,100,000	Varies
Ohio	2% on first $40,000 to 7%	$500,000	$10,000 (e)
Oklahoma	0.5% on first $10,000 to 10% (f)	$10,000,000	(g)
Rhode Island	2% on first $25,000 to 9%	$1,000,000	$25,000 (h)

* 28 states set their estate tax rate to the maximum federal credit, they are: Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Idaho, Illinois, Maine, Michigan, Minnesota, Missouri, Nevada, New Mexico, North Dakota, Oregon, South Carolina, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming and District of Columbia.

(a) Excludes states shown in inheritance tax table (85) which levy an estate tax in addition to their inheritance taxes to insure full absorption of the Federal credit.
(b) The rates generally are in addition to graduated absolute amounts
(c) Maximum Federal credit allowed under the 1954 Code for state estate taxes paid is expressed as a percentage of the taxable estate (after $60,000 exemption) in excess of $40,000, plus a graduated absolute amount. The $60,000 exemption is allowed under the State Death Tax Credit.
(d) A tax on nonresident estates is imposed on the proportionate share of the estate which the property located in the
(e) A credit equal to the lesser of $500 or the amount of the estate is allowed. A marital deduction is allowed in an amount equal to the net value of any asset passing from the decedent to the receiving spouse. But only to the extent that the asset is included in the value of the Ohio gross estate.
(f) Rates apply only to lineal heirs, for collateral heirs the rates vary from 1% on the first $10,000 to 15% on amounts of $1,000,000 or more.
(g) Exemption is a total aggregate of $175,000 for father, mother, child and named relatives. Property passing to surviving spouse is entirely excluded.
(h) Marital deduction is $175,000.

SOURCE: Tax Foundation from Commerce Clearing House and respective State Revenue Departments.

FINANCIAL INSTITUTION TAX

CURRENT LAW

Imposition and Rates

Banks, trust companies, building and loan associations, and other financial institutions are subject to new law provisions and must file a new form for North Dakota tax purposes starting with the 1997 tax year. The legislation repealed North Dakota Century Code chs. 57-35, 57-35.1 and 57-35.2, and replaced them with a new chapter, N.D.C.C. ch. 57-35.3. The legislation is effective for taxable years beginning on or after January 1, 1997.

The definition of a financial institution in the new chapter includes not only the entities covered by the old chapters, but also includes bank holding companies, production credit associations, and leasing companies which have been subject to tax under N.D.C.C. ch. 57-38 (covering income taxes).

The tax under N.D.C.C. ch. 57-35.3 is imposed on every financial institution for the privilege of transacting, or the actual transacting of, business in North Dakota, and is based upon and measured by the financial institution's taxable income. If a financial institution conducts business both within and without North Dakota, the financial institution must apportion its business income to North Dakota according to the apportionment provisions in the new chapter. The apportionment provisions constitute a significant change in the law for financial institutions.

The tax liability is determined by multiplying North Dakota taxable income by seven percent (7%), with a minimum tax of fifty dollars ($50.00). This amount, less any credit allowed for investment in the North Dakota Small Business Investment Company, is divided between the state general fund and the financial institution tax distribution fund. The net tax payable to the financial institution distribution fund must be paid on or before January 15 of the second year following the end of the taxable year. Both payments must be made to the office of State Tax Commissioner.

In addition, if a financial institution elects and is granted Subchapter S corporation status for federal income tax purposes, the Subchapter S status is not recognized for North Dakota financial institution tax purposes, and the corporation must file a financial institution tax return and pay the tax. In this case, a shareholder—limited to an individual, estate or trust—is allowed an adjustment to income in computing the shareholder's North Dakota income tax liability. The adjustment, which is equal to the portion of the income passed through to the shareholder and subject to North Dakota income tax, prevents the financial institution's income from being taxed at both the financial institution level and the individual, estate or trust level.

HISTORICAL OVERVIEW

Significant Changes in Law

1979 Session. The legislature repealed the 1% business privilege tax paid by individuals, estates, trusts, partnerships and corporations doing business in the state.

1991 Session. The legislature allowed state NOL to be carried forward. Out-of-state banks were allowed to acquire a North Dakota bank if the acquiring company is in a reciprocating state and the State Tax Commissioner was authorized to determine a fair method of reporting income to North Dakota. The legislature provided for privilege taxes on North Dakota branches if the U.S. Congress authorized interstate branch banking.

1995 Session. The legislature authorized interstate banking, in-state branching, and interstate branching. Trust companies were allowed to establish for itself and its subsidiaries places of business within or outside North Dakota.

1997 Session. The Legislature repealed N.D.C.C. chs. 57-35, 57-35.1 and 57-35.2 covering banks, trust companies and building or savings and loan associations, and replaced them with a new chapter N.DC.C. ch. 57-35.3, a financial institution tax.

Business Privilege Tax Collections

Fiscal Year	2% State Tax	5% County Tax
1984	1,945,519	4,010,306
1985	1,815,946	4,564,174
1986	2,301,173	5,829,771
1987	2,570,986	5,279,831
1988	2,373,384	4,279,694
1989	1,934,311	4,757,863
1990	2,533,918	4,050,438
1991	1,934,211	4,525,424
1992	2,054,816	5,985,200
1993	2,447,057	6,755,956
1994	3,072,756	5,362,961
1995	2,415,779	4,639,269
1996	1,688,686	6,265,798
1997	2,390,446	

SOURCE: North Dakota Office of State Tax Commissioner, Income Tax Division, and Comparative Statement of Collections.

Financial Institutions Tax*

Fiscal Year	Total	To Financial Institution Distribution Fund	To General Fund
1998	2,630,453	25,614	2,604,839

* The 1997 legislature passed Senate Bill 2331, which significantly changed the tax law for financial institutions. This legislation repealed N.D.C.C. chs. 57-35, 57-35.1 and 57-35.2, and replaced them with a new chapter, N.D.C.C. ch. 53-35.3.

In general, the tax liability of the financial institution is determined by multiplying North Dakota taxable income by 7%. This amount, which may not be less than $50.00, is divided between the state general fund and the financial institution tax distribution fund. The general fund receives 2/7 of the tax, while the financial institution tax distribution fund receives 5/7 of the tax.

The tax collected in the financial institution tax distribution fund is distributed to the counties on or before March 1, 1999, and each subsequent year.

Distribution of Financial Institution Tax*

County	Percentage	County	Percentage
Adams	0.2968%	McKenzie	1.1826%
Barnes	2.2119%	McLean	1.3533%
Benson	0.3919%	Mercer	1.3538%
Billings	0.0310%	Morton	2.1364%
Bottineau	1.8718%	Mountrail	1.7976%
Bowman	1.1325%	Nelson	1.0597%
Burke	0.4819%	Oliver	0.1855%
Burleigh	6.0739%	Pembina	2.1623%
Cass	19.2636%	Pierce	1.0727%
Cavalier	1.6172%	Ramsey	2.5621%
Dickey	0.9295%	Ransom	1.3457%
Divide	0.8446%	Renville	0.3585%
Dunn	0.4347%	Richland	2.7733%
Eddy	0.1709%	Rolette	1.0018%
Emmons	1.2017%	Sargent	1.3122%
Foster	0.9723%	Sheridan	0.2813%
Golden Valley	0.5355%	Sioux	0.0054%
Grand Forks	8.6988%	Stark	4.2348%
Grant	0.3913%	Steele	0.5824%
Griggs	0.9247%	Stutsman	3.4793%
Hettinger	0.5873%	Towner	0.5375%
Kidder	0.4219%	Traill	0.9871%
LaMoure	0.7904%	Walsh	2.5128%
Logan	0.7964%	Ward	7.5118%
McHenry	0.5434%	Wells	1.3501%
McIntosh	1.1093%	Williams	4.0541%

* Money in the Financial Institution Tax Distribution Fund is divided among the counties based on these percentages.

INSURANCE PREMIUM TAX

CURRENT LAW

Imposition, Rates and Administration

Every insurance company licensed to do business in North Dakota is subject to a premium tax on the gross amount of its annual premiums, membership fees, and policy fees received from North Dakota policyholders. The premium tax rate is 2% for life insurance, and 1¾% for accident, health, property, casualty and surplus lines of insurance. A company domiciled in another state may be charged retaliatory tax--the tax rate of the home state--if the rate in the home state is higher than North Dakota's applicable premium tax rate.

A minimum $200 annual filing fee is required provided the total tax liability of an entity required to pay tax is less than $200.

The insurance premium tax is administered by the State Insurance Commissioner and is collected quarterly.

Exemptions and Credits

Gross receipts from annuities and from policies of benevolent and fraternal benefit companies are exempt. A credit is provided for investments in the North Dakota Small Business Investment Company, which is the successor to the Myron G. Nelson Fund, Inc. A North Dakota domestic company may take a credit for property taxes paid on home office space. Any company meeting the requirements of N.D.C.C. ch. 26.1-50, North Dakota Low-Risk Incentives Fund, is entitled to a credit against tax due.

Distribution of Revenue

Collections are deposited in the State General Fund. The legislature may appropriate insurance premium tax revenue to the Insurance Tax Distribution Fund.

Reference: N.D.C.C. § 26.1-03-17.

HISTORICAL OVERVIEW

Significant Changes in Law

Before 1983. Out-of-state insurance companies were subject to a 2½% premium tax. North Dakota insurance companies were subject to corporation income tax, rather than insurance premium tax.

1983 Session. Insurance companies doing business in the state, whether incorporated in North Dakota or any other state, became subject to the insurance premium tax and exempt from the corporation income tax. The legislature provided for a 2% rate for life insurance, ½% for accident and health insurance, and 1% for property, casualty and other types of insurance.

1987 Session. The legislature increased the insurance premium tax rate from ½% to 1¼% for accident and health insurance and from 1% to 1¼% for property, casualty and other insurance. A credit was created for investments in the Myron G. Nelson Fund, Inc.

1989 Session. The legislature increased the insurance premium tax rate from 1¼% to 1¾% for accident, health, property, casualty and other types of insurance.

1991 Session. The legislature adopted a $200 annual filing fee for all insurance companies.

1997 Session. A credit was created for any insurance company making or participating in a loan under the North Dakota Low-Risk Incentive Fund (see N.D.C.C. ch. 26.1-50-05.)

Insurance Premium Tax Collections and Disbursements

Fiscal Year	Total Collections	General Fund	Insurance Distribution Fund
1984	9,638,903	9,638,903	
1985	13,260,472	13,260,472	
1986	12,295,723	12,295,723	
1987	12,202,976	12,202,976	
1988	13,373,480	13,373,480	
1989	14,433,172	14,433,172	
1990	17,699,978	17,699,978	
1991	17,623,237	15,023,237	2,600,000
1992	18,686,984	16,086,984	2,600,000
1993	19,358,623	16,758,623	2,600,000
1994	20,754,641	18,124,492	2,630,149
1995	16,690,729	13,995,743	2,694,986
1996	19,578,122	16,978,122	2,600,000
1997	20,796,911	18,196,911	2,600,000
1998	19,957,574	17,357,574	2,600,000

SOURCE: North Dakota Insurance Department.

Insurance Premium Tax Collections Per Capita - Fiscal Year 1997

Rank	State	Per Capita Insurance Premium Taxes
1	Kentucky	$71
2	Hawaii	$65
3	Louisiana	$58
4	Nevada	$58
5	Delaware	$58
6	Connecticut	$57
7	Massachusetts	$49
8	Alaska	$47
9	South Dakota	$46
10	New Hampshire	$45
11	Tennessee	$45
12	Oklahoma	$43
13	West Virginia	$43
14	California	$40
15	Idaho	$39
16	Minnesota	$39
17	Mississippi	$38
18	Washington	$38
19	New York	$38
20	Iowa	$37
21	New Jersey	$37
22	Montana	$36
23	Alabama	$36
24	North Carolina	$35
25	Maine	$35
26	Kansas	$35
27	New Mexico	$35
28	Texas	$35
29	Rhode Island	$34
30	Missouri	$34
31	Florida	$33
32	Virginia	$33
33	Maryland	$33
34	NORTH DAKOTA	$32
35	Vermont	$32
36	Ohio	$31
37	Pennsylvania	$31
38	Georgia	$30
39	Arizona	$30
40	Colorado	$29
41	Wyoming	$27
42	Arkansas	$26
43	Nebraska	$24
44	Indiana	$24
45	Oregon	$23
46	Utah	$22
47	South Carolina	$21
48	Wisconsin	$20
49	Michigan	$19
50	Illinois	$11
	US Average	$34

SOURCE: US Dept. of Commerce, Census Bureau Department.

LIQUOR AND BEER TAXES

CURRENT LAW

Imposition and Administration

The tax on liquor and beer is a privilege tax imposed on all alcoholic beverage wholesalers doing business in North Dakota. In addition, a microbrew pub pays the tax on beer made on its premises and sold directly to consumers. The pub may not engage in any wholesaling activities.

The State Treasurer administers the tax and licenses wholesalers and microbrew pubs. The tax is collected on a monthly basis.

Exceptions

If the alcohol is used for non-beverage purposes, it is exempt from the tax. These exemptions include:

- Denatured alcohol
- Patent, proprietary, medical, pharmaceutical, antiseptic and toilet preparations
- Flavoring extracts
- Syrups and food products
- Scientific chemical and industrial products
- Wines delivered to priests, rabbis and ministers for sacramental use

Reference: N.D.C.C. § 5-01-02

Rates

The amount of the tax is determined by the type of beverage and the gallonage sold by a wholesaler. The tax rate schedule is as follows:

	Per Wine Gallon
Beer in bulk containers	$ .08
Beer in bottles and cans	$ .16
Wine (less than 17% alcohol)	$ .50
Wine (17% to 24% alcohol)	$ .60
Sparkling wine	$ 1.00
Distilled Spirits	$ 2.50
Alcohol	$ 4.05

Distribution of Revenue

Revenue from the liquor and beer tax is deposited in the State General Fund.

Reference: N.D.C.C. ch. 5-03 and N.D.C.C. § 5-01-02.

HISTORICAL OVERVIEW

Significant Changes in Law

1967 Session. The alcoholic beverage tax law was rewritten and the tax rates were restructured.

1991 Session. Microbrew pubs became subject to the liquor and beer tax.

1995 Session. Bonding repealed.

1995 Session. Microbrew pubs became subject to new licensing requirements.

Liquor and Beer Taxes Collections

Fiscal Year	Total Collections	Beer	Liquor
1989	5,507,109	2,415,742	3,091,367
1990	5,476,747	2,466,264	3,010,483
1991	6,074,086	2,681,053	3,393,033
1992	4,905,156	2,167,278	2,737,878
1993	5,245,880	2,357,113	2,888,767
1994	5,196,200	2,353,878	2,842,321
1995	5,174,280	2,392,007	2,782,273
1996	5,175,220	2,420,748	2,754,401
1997	5,162,187	2,433,513	2,728,674
1998	5,269,318	2,497,087	2,772,231
1999 (est.)	5,331,793		

SOURCE: State Treasurer's Office.

Comparison of State Tax Rates - Beer
January 1, 1998

State	State Rate on Beer ($ per gallon)	Sales Taxes Applied	Other Taxes
Alabama	$0.53	Yes	$0.52/gallon local tax
Alaska	0.35	n.a.	
Arizona	0.16	Yes	
Arkansas	0.23	Yes	under 3.2% - $0.16/gallon; $0.008/gallon and 10% on-premise tax
California	0.20	Yes	
Colorado	0.08	Yes	
Connecticut	0.19	Yes	
Delaware	0.16	n.a.	
District of Columbia	0.09	Yes	8% off-premise and 9% on-premise sales tax
Florida	0.48	Yes	$0.04/12 ounces on-premise retail tax
Georgia	0.48	Yes	$0.53/gallon local tax
Hawaii	0.92	Yes	$0.53/gallon draft beer
Idaho	0.15	Yes	over 4% - $0.45/gallon
Illinois	0.07	Yes	$0.16/gallon in Chicago and $0.06/gallon in Cook County
Indiana	0.12	Yes	
Iowa	0.19	Yes	
Kansas	0.18	Yes	over 3.2% - (8% off- and 10% on-premise), under 3.2% - 4.25% sales tax
Kentucky	0.08	Yes (1)	9% wholesale tax
Louisiana	0.32	Yes	$0.048/gallon local tax
Maine	0.35	Yes	additional 5% on-premise tax
Maryland	0.09	Yes	$0.2333/gallon in Garrett County
Massachusetts	0.11	Yes (1)	0.57% on private club sales
Michigan	0.20	Yes	
Minnesota	0.15	Yes (2)	under 3.2% - $0.077/gallon. 8.5% sales tax
Mississippi	0.43	Yes	
Missouri	0.06	Yes	
Montana	0.14	n.a.	plus 7% surtax
Nebraska	0.23	Yes	
Nevada	0.09	Yes	
New Hampshire	0.30	n.a.	
New Jersey	0.12	Yes	
New Mexico	0.41	Yes	
New York	0.16	Yes	$0.12/gallon in New York City
North Carolina	0.48	Yes	
NORTH DAKOTA	0.16	Yes (2)	$0.08/gallon for bulk beer
Ohio	0.18	Yes	
Oklahoma	0.40	Yes	under 3.2% - $0.36/gallon; $1.00/case on-premise and 12% on-premise
Oregon	0.08	n.a.	
Pennsylvania	0.08	Yes	
Rhode Island	0.10	Yes	$0.04/case wholesale tax
South Carolina	0.77	Yes	
South Dakota	0.27	Yes	
Tennessee	0.13	Yes	17% wholesale tax
Texas	0.19	Yes	over 4% - $0.198/gallon, 14% on-premise, $0.05/drink on airline sales
Utah	0.35	Yes	over 3.2% - sold through state store
Vermont	0.27	No	6% to 8% alcohol - $0.55. 10% on-premise sales tax
Virginia	0.26	Yes	
Washington	0.15	Yes	plus, $4.78/barrel additional tax
West Virginia	0.18	Yes	
Wisconsin	0.06	Yes	
Wyoming	0.02	Yes	
U.S. (median)	$0.185		

(1) Sales tax is applied to on-premise sales only.
(2) Sales tax on beer is higher than the general sales tax rate. In Minnesota the sales tax on beer is 8.5% (the general 6.5% rate applies to 3.2% beer). In North Dakota, the sales tax on beer is 7%.

SOURCE: Federation of Tax Administrators, January 1998.

Comparison of State Tax Rates - Wine

January 1, 1998

State	State Rate on Wine ($ per gallon)	Sales Taxes Applied	Other Taxes
Alabama	$1.70	Yes	Over 14% - sold through state store
Alaska	0.85	n.a	
Arizona	0.84	Yes	
Arkansas	0.75	Yes	under 5% - $0.25/gallon; $0.05/case; and 3% off and 10% on-premise
California	0.20	Yes	sparkling wine - $0.30/gallon
Colorado	0.32	Yes	
Connecticut	0.60	Yes	over 21% and sparkling wine - $1.50/gallon
Delaware	0.97	n.a.	
District of Columbia	0.30	Yes	8% off and 9% on-premise sales tax, over 14% - $0.40/gallon, sparkling - $0.45/gallon
Florida	2.25	Yes	over 17.259% - $3.00/gallon, sparkling wine $3.50/gallon $0.10/4 ounces on-premise retail tax
Georgia	1.51	Yes	over 14% - $2.54/gallon; $0.83/gallon local tax
Hawaii	1.36	Yes	sparkling wine - $2.09/gallon and wine coolers - $0.84/gallon
Idaho	0.45	Yes	
Illinois	0.23	Yes	over 14% - $0.60/gallon; $0.30/gallon in Chicago and ($0.16-$0.30)/gallon in Cook County
Indiana	0.47	Yes	over 21% - $2.68/gallon
Iowa	1.75	Yes	under 5% - $0.19/gallon
Kansas	0.30	No	over 14% - $0.75/gallon; 8% off - and 10% on-premise
Kentucky	0.50	Yes (2)	9% wholesale
Louisiana	0.11	Yes	14% to 24% - $0.23/gallon, over 24% and sparkling wine - $1.59/gallon
Maine	0.60	Yes	over 15.5%-sold through state stores, sparkling wine - $1.25/gallon additional 5% - on-premise sales tax
Maryland	0.40	Yes	
Massachusetts	0.55	Yes (2)	sparkling wine - $0.70/gallon
Michigan	0.51	Yes	over 16% - $0.76/gallon
Minnesota	0.30	Yes (3)	14% to 21% - $0.95/gallon, under 24% and sparkling wine $1.82/gallon; $0.01/bottle (except miniatures)
Mississippi	0.35	Yes	over 14% and sparkling wine - sold through the state
Missouri	0.36	Yes	
Montana	1.06	n.a.	over 16% - sold through state stores; 7% surtax
Nebraska	0.75	Yes	over 14% - $1.35/gallon
Nevada	0.40	Yes	14% to 22% - $0.75/gallon, over 22% - $2.05/gallon
New Hampshire	see footnote (1)	n.a.	
New Jersey	0.70	Yes	
New Mexico	1.70	Yes	over 14% - $6.06/gallon
New York	0.19	Yes	
North Carolina	0.79	Yes	over 17% - $0.91/gallon
NORTH DAKOTA	0.50	Yes (3)	over 17% - $0.60/gallon, sparkling wine - $1.00/gallon
Ohio	0.32	Yes	over 14% - $1.00/gallon, vermouth - $1.10/gallon, sparkling wine - $1.50/gallon
Oklahoma	0.72	Yes	over 14% - $1.44/gallon, sparkling wine - $2.08/gallon; $1.00/bottle on-premise and 12% on-premise
Oregon	0.67	n.a.	over 14% - $0.77/gallon
Pennsylvania	see footnote (1)	Yes	
Rhode Island	0.60	Yes	sparkling wine - $0.75/gallon
South Carolina	0.90	Yes	$0.18/gallon additional tax
South Dakota	0.93	Yes	14% to 20% - $1.45/gallon; over 21% and sparkling wine - $2.07/gallon; 2% wholesale tax
Tennessee	1.10	Yes	$0.15/case and 15% on-premise; under 7% - $1.10/gallon
Texas	0.20	Yes	over 14% - $0.408/gallon and sparkling wine - $0.516/gallon 14% on-premise and $0.05/drink on airline sales
Utah	see footnote (1)	Yes	
Vermont	0.55	Yes	over 16% - sold through state store
Virginia	1.51	Yes	Under 4% - $0.2565/gallon and over 14% - sold in state store
Washington	0.87	Yes	over 14% - $1.72/gallon
West Virginia	1.00	Yes	over 14% - sold through state store
Wisconsin	0.25	Yes	Over 14% - $0.45/gallon
Wyoming	see footnote (1)	Yes	
U.S. (median)	0.73		

(1) All wine sales are through state stores. Revenue in these states is generated from various taxes, fees and net profits.
(2) Sales tax is applied to on-premise sales only.
(3) Sales tax on wine is higher than the general sales tax rate. In Minnesota the sales tax on wine is 8.5%, in North Dakota 7%.

SOURCE: Federation of Tax Administrators, January 1998.

Comparison of State Tax Rates - Distilled Spirits

January 1, 1998

State	State Rate on Spirits ($ per gallon)	Sales Taxes Applied	Other Taxes
Alabama	see footnote [1]	Yes	
Alaska	$5.60	n.a.	under 21% - $0.85/gallon
Arizona	3.00	Yes	
Arkansas	2.50	Yes	under 5% - $0.50/gallon; under 21% - $1.00/gallon; $0.20/case; 3% off and 14% on-premise retail taxes
California	3.30	Yes	over 50% - $6.60/gallon
Colorado	2.28	Yes	
Connecticut	4.50	Yes	under 7% - $2.05/gallon
Delaware	3.75	n.a.	under 25% - $2.50/gallon
District of Columbia	1.50	Yes	8% off- and 9% on-premise sales tax
Florida	6.50	Yes	under 17.259% - $2.25/gallon, over 55.780% - $9.53 gallon, $0.10/ounce on-premise retail tax
Georgia	3.79	Yes	$0.83/gallon local tax
Hawaii	5.92	Yes	
Idaho	see footnote [1]	Yes	
Illinois	2.00	Yes	under 14% - $0.23/gallon; $0.50/gallon in Chicago and $1.00/gallon in Cook County
Indiana	2.68	Yes	under 15% - $0.47/gallon
Iowa	see footnote [1]	Yes	
Kansas	2.50	No	8% off - and 10% on-premise retail tax
Kentucky	1.92	Yes [2]	under 6% - $0.25/gallon; $0.05/case and 9% wholesale tax
Louisiana	2.50	Yes	under 6% - $0.32/gallon
Maine	see footnote [1]	Yes	
Maryland	1.50	Yes	
Massachusetts	4.05	Yes [2]	under 15% - $1.10/gallon; over 50% alcohol - $4.05/proof gallon; 0.57% on private club sales
Michigan	see footnote [1]	Yes	
Minnesota	5.03	Yes [3]	$0.01/bottle (except miniatures)
Mississippi	see footnote [1]	Yes	
Missouri	2.00	Yes	
Montana	see footnote [1]	n.a.	
Nebraska	3.00	Yes	
Nevada	2.05	Yes	under 14% - $0.40/gallon and under 21% - $0.75/gallon
New Hampshire	see footnote [1]	n.a.	
New Jersey	4.40	Yes	
New Mexico	6.06	Yes	
New York	6.44	Yes	under 24% - $2.54/gallon; $1.00/gallon in New York City
North Carolina	see footnote [1]	Yes [2]	
NORTH DAKOTA	2.50	Yes [3]	
Ohio	see footnote [1]	Yes	
Oklahoma	5.56	Yes	$1.00/bottle on-premise and 12% on-premise
Oregon	see footnote [1]	n.a.	
Pennsylvania	see footnote [1]	Yes	
Rhode Island	3.75	Yes	
South Carolina	2.72	Yes	$5.36/case and 9% surtax
South Dakota	3.93	Yes	under 14% - $0.93/gallon, 2% wholesale tax
Tennessee	4.00	Yes	$0.15/case and 15% on-premise; under 7% - $1.10/gallon
Texas	2.40	Yes	14% on-premise and $0.05/drink on airline sales
Utah	see footnote [1]	Yes	
Vermont	see footnote [1]	No	
Virginia	see footnote [1]	Yes	
Washington	see footnote [1]	Yes [2]	
West Virginia	see footnote [1]	Yes	
Wisconsin	3.25	Yes	
Wyoming	see footnote [1]	Yes	
U.S. (median)	$3.25		

(1) In 18 states, the government directly controls the sales of distilled spirits. Revenue in these states is generated from various taxes, fees, and net liquor profits.
(2) Sales tax is applied to on-premise sales only.
(3) Sales tax on distilled spirits is higher than the general sales tax rate. In Minnesota, sales tax on spirits is 8.5%, in North Dakota 7%.

SOURCE: Federation of Tax Administrators, January 1998.

GAMING TAXES

CURRENT LAW

Imposition and Rates

Gaming Taxes. A gaming tax is levied on the total adjusted gross proceeds from games of chance conducted by various licensed organizations. "Adjusted gross proceeds" is defined as gross proceeds less cash and merchandise prizes. The tax rates on adjusted gross proceeds per quarter are:

Up to $ 200,000	5%
$ 200,000 to $ 400,000	10%
$ 400,000 to $ 600,000	15%
Over $ 600,000	20%

In addition, a 4.5% excise tax is imposed on gross proceeds from pull tabs.

The Attorney General administers the gaming taxes which are remitted on a quarterly basis.

Pari-mutuel Taxes. A pari-mutuel tax is levied upon total wagers placed at live and simulcast (OTB) race performances as follows:

- 2% of total wagers in the pari-mutuel pools for win, place and show.
- 2.5% of total wagers in the pari-mutuel pool for other wagers combining two or more horses.

In addition to the taxes, 0.5% of all wagers is deducted for deposit in each of two special funds, and 0.5% of wagers combining two or more horses is deducted for deposit in a third special fund.

Pari-mutual taxes and special funds are administered by the North Dakota Racing Commission.

Gaming Regulation

In most instances, an organization must receive a license from the Attorney General to conduct games. The maximum number of sites an organization may operate is 25. The Attorney General conducts criminal history record checks of all potential new employees. Persons who have committed any felony or certain misdemeanor offenses are prohibited from being an employee in the gaming industry.

Certain organizations which conduct only limited sports pools, raffles or bingo may be issued a local permit by a city or county.

All net proceeds from games of chance must be disbursed to educational, charitable, patriotic, fraternal, religious or other public-spirited uses. "Net proceeds" is defined as adjusted gross proceeds less allowable expenses and the gaming tax. "Allowable expenses" per quarter are limited to 50% of the first $200,000 of adjusted gross proceeds and 45% of adjusted gross proceeds over $200,000, plus 2.5% of the gross proceeds of pull tabs.

Organizations may conduct games of poker, twenty-one, punchboards, pull tabs, bingo, raffles, calcuttas, paddlewheels, and sports pools. The maximum wager for the game of twenty-one is $5. Video surveillance systems are required at sites where twenty-one wagers exceed $2 and gross proceeds from twenty-one activity exceed $10,000 per quarter. Organizations may use dispensing devises to conduct pull tabs and bingo and have bar employees redeem players' winning pull tabs or bingo cards.

Distribution of Revenue

Gaming Taxes. Revenue from the gaming and excise taxes is deposited in the State General Fund. For the 1997-99 biennium, the legislature appropriated a payback of $126,769 per quarter to cities and counties for gaming enforcement.

Pari-mutuel Taxes. Revenue from the pari-mutuel tax is distributed to the State General Fund. Revenues from the deductions are deposited in special funds used for promotion of the racing industry in North Dakota. These funds are the Purse Fund, the Breeders' Fund and the Race Promotion Fund. Unclaimed tickets and breakage are retained in the Race Promotion Fund.

Reference: N. D.C. C. chs. 53-06.1 and 53-06.2.

HISTORICAL OVERVIEW

Significant Changes in Law

<u>1977 Session.</u> Bingo, raffles, pull tabs, punchboards and sports pools were legalized. The gaming tax was established at 3% of adjusted gross proceeds.

<u>1979 Session.</u> The gaming tax rate was increased from 3% to 5% of adjusted gross proceeds.

<u>1981 Session.</u> The game of twenty-one with a $2 maximum wager was legalized.

<u>1983 Session.</u> The tax rate was changed from 5% of adjusted gross proceeds to 5% on the first $600,000 of adjusted gross proceeds per quarter and 20% on adjusted gross proceeds over $600,000 per quarter.

<u>1987 Session.</u> The legislature legalized games of draw and stud poker and on-track parimutuel wagering.

<u>1989 Session.</u> Calcuttas for certain North Dakota sporting events were legalized. The maximum wager for the game twenty-one was increased from $2 to $5. The legislature legalized electronic video gaming devices and set the maximum prize at $500. The legislature authorized off-track simulcast pari-mutuel racing (sponsored by various licensed organizations) and levied various taxes on pari-mutuel betting. The legislature changed gaming tax rates on adjusted gross proceeds per quarter to the following:

Up to $ 200,000	5%
$ 200,000 to $ 400,000	10%
$ 400,000 to $ 600,000	15%
Over $ 600,000	20%

In addition, a 2% excise tax was imposed on gross proceeds from pull tab games.

<u>1989 Referred Measure.</u> The 1989 Legislature's legalization of electronic video gaming devices was rejected by the voters in a Special Election.

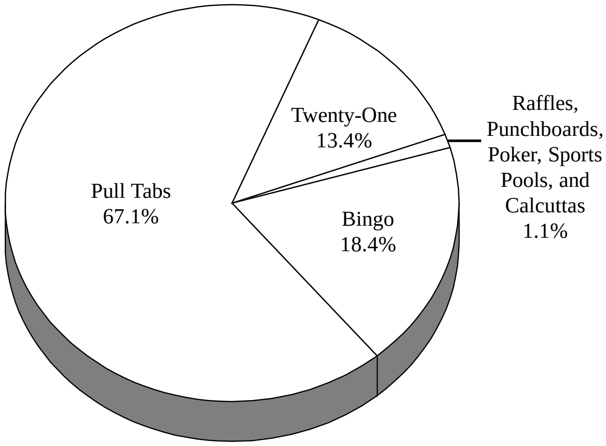
<u>1991 Session.</u> The game of paddlewheels was legalized with a $2 maximum wager. Employees of alcoholic beverage establishments were authorized to assist certain gaming organizations in the conduct of pull tabs and bingo through the use of dispensing devices.

<u>1993 Session.</u> The excise tax on pull tab gross proceeds was increased from 2% to 4.5%. Organizations were required to install a video surveillance system at sites where twenty-one wagers exceeded certain levels. The payback amount was reduced from $170,000 to $153,000 per quarter. Manufacturers and manufacturer's distributors of pull tab dispensing devices were required to be licensed.

<u>1995 Session.</u> All organizations, regardless of size, were authorized to conduct pull tabs and bingo through dispensing devices and have bar employees redeem the players' winning pull tabs or cards. The work permit system was replaced by a law that enables the Attorney General's Office to conduct criminal history record checks of all potential new employees. Persons who have committed any felony or a certain misdemeanor offense were prohibited from being an employee in the gaming industry. The payback to counties and cities for gaming enforcement was reduced from $153,000 to $130,690 per quarter. Two and one-half percent of gross proceeds of pull tabs was added to the allowable expense limit for organizations.

<u>1997 Session.</u> Organizations were authorized to have more than twenty-five sites provided that each additional site was authorized for fourteen or fewer consecutive days for not more than two events per quarter. Organizations were authorized to use employees of temporary employment agencies to conduct games at sites. For the game paddlewheels, in which prizes are a variable multiple of the players' wagers, paper tickets were no longer required to be used. The Gaming Commission was authorized to increase the organizations' allowable expense limit for capital expenditures for security or video surveillance equipment. Chambers of Commerce were authorized to use net proceeds to promote tourism. The license fee for manufacturers' of pull tabs, paper bingo cards, and or dispensing devices was increased to $4,000. The Attorney General was authorized to require a representative of an organization or distributor to participate in training. The Attorney General was authorized, for good cause, to prohibit a person from being involved in the conduct of gaming or provide personal or business services to an organization or distributor. Live beef or dairy cattle were authorized to be raffle prizes. The Department of Human Services received an appropriation of $150,000 to outsource contract for compulsive gambling prevention, awareness, crises intervention, rehabilitation, and treatment services.

Percentage Breakdown By Game
Total Gaming Tax Revenue
Fiscal Year 1997



SOURCE: Attorney General's Office, Gaming Division.

Excise Tax Collections
Levied on Gross Proceeds of Pull Tabs

Fiscal Year	State General Fund
1990	$1,746,960
1991	2,264,376
1992	2,548,030
1993	3,498,151
1994	8,312,242
1995	7,949,756
1996	8,225,020
1997	7,983,786
1998 (estimate)	8,172,000
1999 (estimate)	8,172,000

Pari-mutuel Racing Collections*
Levied on On and Off-Track Horse Racing

Calendar Year	State General Fund
1990	$ 46,018
1991	161,904
1992	137,116
1993	186,069
1994	187,669
1995	91,812
1996	100,917
1997	120,000

* Horse racing taxes are deposited in the General Fund. Several other portions of wagers are distributed to other racing-related funds and are not included in the table.

SOURCE: Attorney General's Office, Gaming Division; and the North Dakota Racing Commission Office. [NOTE: Due to accounting procedures within the Attorney General's Office, there are minor differences between figures for each of the three gaming taxes and fiscal year totals reported to the Office of Management and Budget.]

Gaming Tax Collections
Levied on Total Adjusted Gross Proceeds

Fiscal Year	Total Collections
1990	2,338,236
1991	2,644,851
1992	2,998,148
1993	3,791,972
1994	3,358,246
1995	3,191,845
1996	3,354,993
1997	3,153,512
1998 (estimate)	2,980,000
1999 (estimate)	2,980,000

UNEMPLOYMENT INSURANCE

CURRENT LAW

Imposition

Employers are subject to the North Dakota Unemployment Compensation Law if they are subject to the Federal Unemployment Tax Act. A firm in the private sector is subject to the Unemployment Compensation Law if it employs one or more workers in each of 20 different weeks in a calendar year or has a quarterly payroll of $1,500 or more.

The requirements also apply to an employer paying $1,000 or more in wages for domestic services and an employer of agricultural labor employing 10 or more workers in 20 different weeks within a calendar year or paying cash wages of $20,000 or more in any calendar quarter. A nonprofit organization having a 501-c-3 exemption (a federal income tax exemption covering charitable, religious and educational institutions) is subject to the tax if it employs four or more workers in each of 20 different weeks in a calendar year.

Excluded from unemployment compensation coverage are: services performed by insurance or real estate salespersons paid entirely by commissions, services performed for a parent by a child under the age of 18, services performed by the parents of the employer, and services performed by the wife or husband of the employer. Corporate officers with a 25% ownership may be excluded by written application.

Employers not otherwise liable under the law may request unemployment compensation coverage which, if approved, is effective for a minimum of two years.

Coverage for unemployment compensation benefits is effective immediately upon employment with state or local government units.

Taxes

Wage Base. For federal tax purposes, the taxable wage base is the first $7,000 of each employee's wages. For state tax purposes, the taxable wage base is 70% of the statewide average annual wage. For 1998, the taxable wage base used for the North Dakota tax is $14,800.

Rates. The employer pays the entire tax for both federal and state unemployment compensation taxes.

A newly liable employer is assigned the tax rate of 2.2% unless the employer is classified in a construction industry. The tax rate for new construction employers is 7% or the maximum rate, whichever is greater.

For other than newly liable employers, the employer's tax rate is determined by an experience-rating system which establishes the rate on the basis of the relationship between the employer's reserve account (the taxes paid less benefits charged) and his or her average taxable payroll, and also on the basis of the general condition of the State Unemployment Compensation Trust Fund as of the first day of October each year. For 1998, rates for these employers range from 0.1% to 8.5%.

Only employers with negative balances--their former employees having collected more in benefits than the company has paid in taxes--are assessed at the maximum rate, 5.4% in 1998. The rate for construction employers with negative balances is 7% except those in SIC 161, which is 8.5%.

The highest rate any "positive balance employer" will pay in 1998 - 1.3%.

Payments. Taxes are paid quarterly to Job Service North Dakota. Certain nonprofit organizations may choose a reimbursement method of financing under which they repay Job Service only for unemployment benefits the state paid out to the organization's former employees.

Benefits

An unemployed worker may file a claim for benefits at any Job Service office. If the claimant has sufficient wage credits in a base period, the claimant's most recent employer and all base period employers are notified that a valid claim for benefits has been filed. Employers and claimants have the right to appeal all decisions by Job Service.

The minimum weekly benefit paid to a claimant is $43 per week. If the claim computes to be less than that minimum, no benefits are allowed.

The maximum weekly benefit cannot exceed 65% of the average statewide weekly wage of all covered workers. The maximum weekly benefit is computed annually and takes effect on all claims filed after July 1 of each year. For the period July 1, 1998 through June 30, 1999, the maximum weekly benefit amount is $271.

Unemployed workers filing claims may be disqualified for unemployment compensation benefits if they voluntarily quit their last employment without good cause attributable to the employer; were discharged for misconduct connected with their last work; failed to apply for or accept suitable work; lost employment due to participation in a labor dispute; or failed to disclose work and earnings during a period of claim filing.

Administration

Job Service North Dakota administers the state's unemployment insurance programs.

For more information on North Dakota's Unemployment Compensation Law, write to Job Service North Dakota, PO Box 5507, Bismarck, ND 58502, or call toll-free in-state 1-800-472-2952. Out-of-state calls should be made to 701-328-2814. Persons who wish to file claims may call toll-free in-state 1-800-472-2222.

Reference: N.D.C.C. Chapters 52-01 and 52-07.

HISTORICAL OVERVIEW

Significant Changes in Law

1987 Session. The legislature authorized a reduction of about 15% in annual benefit payments through a decrease in the maximum benefit amount as well as changes in benefit calculations. The array system of establishing employer tax rates was adopted to ensure a stable trust fund reserve. The tax rate for new employers in positive-balance industries was fixed at 3.25% for the first three years. Legislators established an incremental bonding provision requiring contractors on large construction projects to post cash bonds.

1989 Session. The legislature required that the Job Insurance Trust Fund have a reserve each October 1 of 60% of the average annual amount of benefits paid during the previous three years. To shift more of the tax burden to deficit employers, the multiplier for establishing the maximum tax rate was increased from 2.75 to 3.0 times the average tax rate beginning in 1990. The legislature assigned new employers in the construction industry a tax rate of 9%, or the maximum rate, whichever is greater.

1991 Session. The legislature reduced the unemployment insurance tax rate for new businesses, other than those in the construction industry, from 3.25% for the first three years to 2.8% for the first four years. Independent contractor determination was changed from the "ABC Test" to the "Common Law Test." Legislators excluded from unemployment coverage a corporate officer's parent, child or spouse and corporate officers with 25% or more ownership. The benefit eligibility qualifying ratio was lowered from 1.5 times to 1.3 times the high quarter wages and the number of weeks some workers are potentially eligible for benefits was increased by two. The legislature provided for merging the Workers Compensation Bureau with Job Service North Dakota by July 1, 1993, and directed the Legislative Council to study the feasibility, desirability and cost of the consolidation.

1993 Session. The legislature allowed credit to employee experience rating accounts for benefits determined to be overpayments. Legislators relieved employers from back taxes on workers determined by Job Service to be employees, if they previously were issued a certification by the labor commissioner designating the workers to be independent contractors. The benefit eligibility qualifying ratio was increased from 1.3 times to 1.5 times the high quarter wages and the number of weeks some workers are potentially eligible for benefits was decreased by two. Legislators repealed the provisions to merge Job Service with the Workers Compensation Bureau.

1995 Session. The legislature reduced the tax rate for new employers in non-construction industries from 2.8% to 2.2% and in construction industries from 9% to 7%. The rate for negative balance construction employers was increased from 5.4% to 7%. Legislators required claimants to participate in reemployment services if they have been determined likely to exhaust benefits according to a profiling system established by Job Service. Confidentiality provisions were amended to allow Job Service to disclose information to the North Dakota Occupational Information Coordinating Committee.

1997 Session. The legislature created a new table assigning the maximum yearly number of weeks of unemployment compensation benefits available to certain employees in the highway and street construction industry. Legislators changed how unemployment compensation employer rates are determined for certain employers in the highway and street construction industry. The legislature determined that people who file a new claim for unemployment compensation benefits must be advised of tax consequences of receiving unemployment benefits. Legislators created a new class of employees providing services to or on behalf of an educational institution which may be disqualified from receiving unemployment compensation benefits.

Unemployment Insurance Benefit Payments
For year ending September 30
$ Millions

Fiscal Year	Benefit Payments
1984	50.1
1985	47.0
1986	49.5
1987	39.2
1988	28.8
1989	27.7
1990	22.5
1991	26.9
1992	30.4
1993	26.0
1994	27.3
1995	29.1
1996	31.6
1997	36.9
1998 (est.)	36.9

SOURCE: Job Service North Dakota

Comparison of Area States 1998 Unemployment Insurance Rates
New Firms in Positive Reserve Industries (1)

State		Rate	Taxable Wage Base (2)	Payment Per Employee
Minnesota		1.6%	$17,200	$275
Montana	(Depends on Industry)			
	High Rate	3.6%	16,500	594
	Low Rate	1.1%	16,500	182
Nebraska		3.5%	7,000	245
NORTH DAKOTA		2.2%	14,800	326
South Dakota		1.9%	7,000	133
Wisconsin		3.05%	10,500	320
Wyoming	(Depends on Industry)			
	High Rate	8.63%	12,500	1,079
	Low Rate	1.30%	12,500	163

(1) In a positive reserve industry the total benefits paid to workers are less than the total taxes paid by their employers. Rates are for nonconstruction firms. Rates for new construction firms are 3.5% in Nebraska, 3.6% in Montana, 4.4% in Wisconsin, 8.63% in Wyoming, 6.7% in South Dakota, 7.0% in North Dakota, and 7.5% in Minnesota.

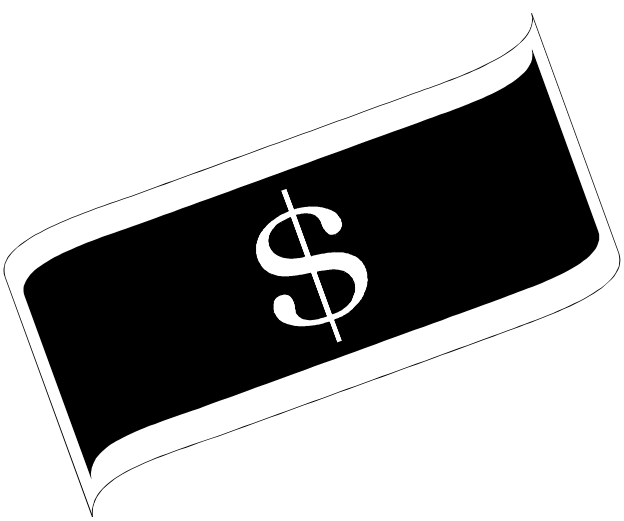
(2) The taxable wage base is the amount of each employee's wages subject to the unemployment insurance tax rate.

SOURCE: Job Service North Dakota (updated December 1997).

Average North Dakota Employer Tax Rate and Job Insurance Tax Revenue

Calendar Year	Average Employer Tax Rates: Percent of Total Wages	Average Employer Tax Rates: Percent of Taxable Wages	Tax Revenue
1984	2.03%	3.55%	51,600,437
1985	1.78%	3.12%	44,996,074
1986	1.63%	2.88%	40,750,161
1987	2.30%	4.17%	59,419,740
1988	1.53%	2.79%	41,139,949
1989	1.25%	2.31%	34,927,577
1990	0.88%	1.64%	26,256,077
1991	0.66%	1.23%	20,549,358
1992	0.79%	1.48%	26,271,111
1993	0.81%	1.49%	28,520,133
1994	0.66%	1.22%	25,108,174
1995	0.61%	1.12%	24,997,172
1996	0.48%	0.86%	20,709,398
1997 (est.)	0.46%	0.84%	21,514,000
1998 (est.)	0.46%	0.84%	22,612,000

SOURCE: Job Service North Dakota



Unemployment Tax Collected Per Capita - 1994

State	Per Capita Unemployment Taxes
Massachusetts	$179.73
Rhode Island	160.39
Alaska	147.70
Pennsylvania	146.28
Michigan	131.26
Connecticut	125.94
New York	113.81
Washington	111.06
Illinois	110.28
Maine	98.59
Maryland	94.56
New Jersey	91.08
Nevada	90.37
California	88.41
Minnesota	87.08
Oregon	86.40
Delaware	84.05
Ohio	83.72
Vermont	82.79
Wisconsin	80.43
Arkansas	74.55
Missouri	70.43
Kansas	70.19
West Virginia	67.18
Hawaii	63.48
Wyoming	62.08
New Hampshire	62.04
Montana	60.15
Idaho	57.61
Iowa	54.99
Kentucky	54.89
Colorado	52.58
Mississippi	51.89
Texas	51.68
Tennessee	51.51
Georgia	50.96
New Mexico	50.19
Florida	49.10
Louisiana	48.55
South Carolina	48.32
Arizona	42.50
NORTH DAKOTA	42.26
Virginia	39.49
Utah	39.38
Indiana	37.88
Alabama	34.98
North Carolina	34.11
Oklahoma	33.78
Nebraska	26.89
South Dakota	12.27

SOURCE: Tax Foundation and the Census Bureau.

WORKERS COMPENSATION

CURRENT LAW

Imposition

The intent of the workers' compensation program is to take care of injured workers' medical bills; provide wage-loss, impairment, and rehabilitation payments; and, in the case of death, provide monthly payments to spouses and dependents. A properly-insured employer is immune from lawsuits for on-the-job injury of an employee.

Employers must include all employees, except those specifically exempted by law, in the workers' compensation insurance program. Exclusions include farm and ranch workers, domestic workers, clergy, federal employees, railroad employees, newspaper delivery people, and real estate brokers and salespeople who operate under a signed contract as an independent contractor. Coverage is optional for executive officers of a corporation, resident family members, employers and self-employed people.

Premiums

In North Dakota, workers' compensation insurance is financed through premiums paid by employers. These premiums are among the lowest in the nation. Premiums for each employer are calculated using payrolls, job-based premium rates and loss history.

Employers report their payrolls to the North Dakota Workers Compensation Bureau on an annual basis, according to the effective date of the employer's account. The amount of payroll used to calculate the premium for each worker is limited to 70% of the state's average annual wage. This "wage cap" was $14,200, as of July 1, 1997.

Premium rates are set for more than 144 job classifications based on occupational risk, employers' accident experience, medical costs and benefit levels. Premium costs range from 35 cents per $100 of payroll for clerical workers to $27.89 per $100 of payroll for crop spraying pilots, one of the highest classifications.

Employers pay premiums to the bureau annually. Some employers may elect to make quarterly payments with interest.

An employer who operates a safety program approved by the bureau is entitled to a premium discount. A retrospective rating pilot program allows certain employers who pay annual premiums of $250,000 or more to pay a deposit premium and then reimburse the bureau for actual costs of claims up to a certain cap.

Benefits

An injured worker is responsible for filing a claim, and must do so within one year of the date of the injury to be eligible to receive benefits for the entire length of time he or she is unable to work because of the disability. Although claims may be filed up to one year after an inquiry, the injury itself must be reported to employers within 7 days. Employers must then report to the bureau within 7 days of receiving the report from the worker. Any disability must be substantiated by medical evidence.

An injured worker's medical treatment is monitored through a managed care program and is subject to a medical fee schedule. The bureau reimburses the injured worker for "reasonable and necessary" medical treatment.

Wage-loss benefits for a worker disabled for at least five days are based on 66 2/3% of the worker's weekly wage, not to exceed 100% of the state's average weekly wage. On July 1, 1997 the state's average weekly wage was $402. An additional weekly allowance of $10 is paid for each child under age 18 or incapable of self-support, or age 18 to 22 if a full-time student.

Workers identified with medical restrictions in returning to work are evaluated through a workability assessment to determine ability to return to work and eligibility for rehabilitation benefits, which may include formalized retraining.

Workers who suffer permanent loss of use of a body part may qualify for a one-time "permanent partial impairment" payment.

Death benefits are paid to the survivors of workers killed in an accident. For spouses, the maximum benefit is now the same as the maximum weekly disability benefit. An additional $10 per week is paid for each dependent child and the surviving spouse receives a one-time payment of $600 plus $200 for each dependent child. Burial expenses were doubled during the 1997 Legislative Session from $2,500 to $5,000. Total benefits may not exceed $197,000 over the lifetime of a claim.

Dispute Resolution

The Workers' Adviser Program helps workers and employers on claims issues and serve as a litigation alternative.

Injured workers may appeal bureau decisions on benefit claims by requesting an administrative hearing or binding arbitration or by appealing to the district court. The bureau pays injured workers' attorney fees only if the worker wins the appeal and only if the worker sought assistance from the Workers' Adviser Program before appealing. Attorneys fees may not exceed 20% of the amount in dispute.

Fraud

A special Fraud Unit within the bureau investigates workers, employers and providers suspected of committing fraud. Fraud Unit savings as of the end of 1997 were nearly $5 million.

Administration

The Workers Compensation Bureau administers the state's workers' compensation program. For more information on North Dakota workers compensation, write to the North Dakota Workers Compensation Bureau, 500 East Front Avenue, Bismarck, ND 58504-5685, call (701)328-3800, or call the HelpLine 1-800-777-5033.

Reference: N.D.C.C., Title 65.

HISTORICAL OVERVIEW

Significant Changes in Law

1989 Session. The legislature changed the methodology for paying attorney fees in claims rehearings and appeals to allow for payment of attorneys' fees, win or lose, at the administrative hearing level, and for payment of fees only if the claimant prevails at the District and Supreme Court levels. Extensive revisions were made to the rehabilitation chapter regarding eligibility procedures and benefit amounts. The bureau's administration was changed from a three-member board of commissioners to a single executive director and an advisory council was created.

1991 Session. The legislature created binding arbitration as an alternative dispute resolution process, mandated a managed care program and use of a third party administrator to monitor injured workers' medical care, and mandated the bureau adopt a hospital and medical fee schedule. Employers were required to reimburse the bureau up to the first $250 of medical expenses. The wage base for computing the premium was changed from $3,600 to 70% of the state's average annual wage.

1993 Session. The legislature created a system of binding dispute resolution for disputes arising out of the bureau's managed care program. The legislature approved a risk management program which allows employers a 5% discount on annual premiums if they design and implement a bureau approved safety program. Suspension of benefits was allowed if an employee applies for benefits in another state for the same injury. An "other states" coverage program was established regarding payment of benefits to North Dakota-covered workers whose injury, disease or death occurred in another state.

1995 Session. Workers were required to report injuries to their employers within 7 days. Employers were required to report to the bureau within 7 days of receiving reports from workers. The bureau was allowed to use failure to report as a factor in determining claims. Employers with approved risk management programs were allowed to choose medical providers. If a worker wants to choose the provider, the worker must notify the employer in writing before an injury occurs.

The legislature revoked wage-loss and rehabilitation benefits for workers who do not comply with rehabilitation plans. Wage-loss benefits were stopped for injured workers who receive Social Security Retirement benefits. Permanent partial impairment (PPI) compensation was limited to workers with over 15% whole body impairments.

A workers' adviser program was set up to serve as a litigation alternative and to help injured workers with the workers' compensation process. The bureau was authorized to set up a special fraud unit. Fraud involving over $500 was changed from a class A misdemeanor to a class C felony. Attorney fees may no longer exceed 20% of the amount a claimant receives nor may they be paid by the bureau if the claimant loses.

1996 Referred and Initiated Measures. Voters in the June 1996 primary election upheld the changes made by the 1995 legislature.

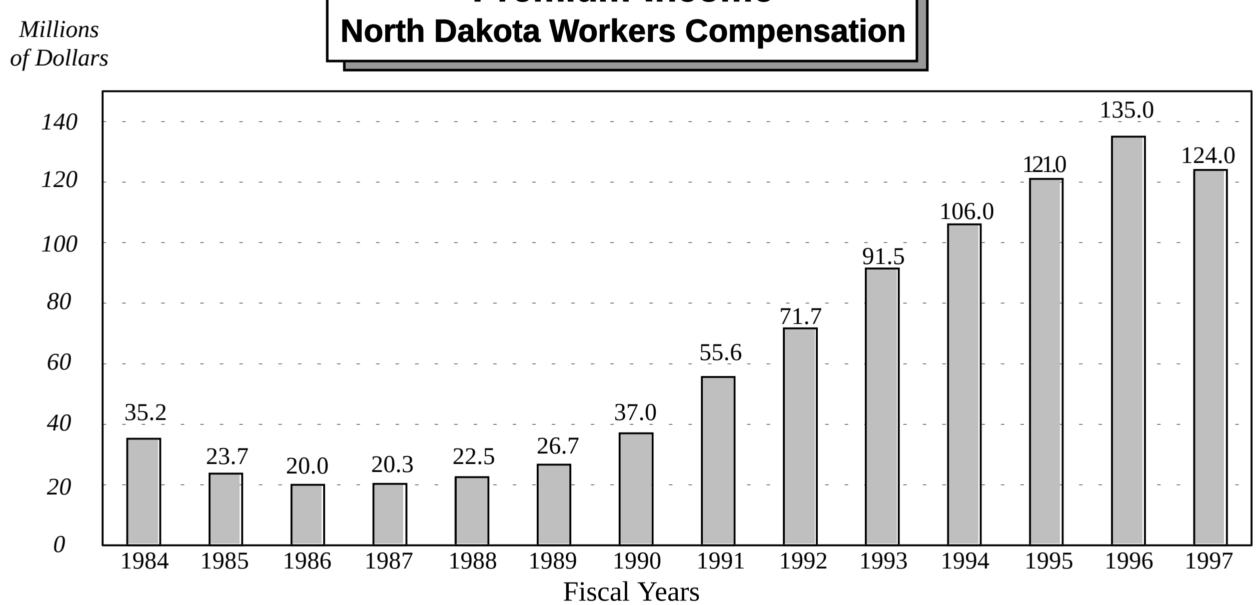
1997 Session. The 1997 legislature changed the law to increase certain benefits, streamline claims processes, enhance system efficiency, further restrict the potential for fraud, reduce litigation and adjust earlier reforms. The legislature also placed the Bureau within the oversight of a board of directors made up of Bureau constituents appointed by the Governor. The Bureau continues to be managed by an executive director who reports directly to the board. This law also mandated that independent, qualitative performance audits be conducted on all departments every two years with the result being presented to the state auditor and the legislature. These audits must be performed by independent firms recognized as experts in the workers' compensation industry.

North Dakota Workers Compensation Premiums
Example of Low (Clerical) and High (Aircraft Operations) Occupations

	Annual Premium Per Employee	
Year	**Clerical**	**Aircraft Operations**
1980	$13.32	$1,503.00
1981	12.24	1,353.60
1982	10.44	1,080.00
1983	9.00	960.84
1984	8.28	907.92
1985	7.92	889.20
1986	6.92	889.20
1987	8.28	908.64
1988	9.00	908.64
1990	16.92	1,426.32
1991	24.12	1,802.88
1992	36.60	3,212.26
1993	40.32	3,483.90
1994	50.70	3,918.20
1995	52.26	3,734.58
1996	52.82	3,757.17
1997	49.70	3,335.58

SOURCE: North Dakota Workers Compensation Bureau.

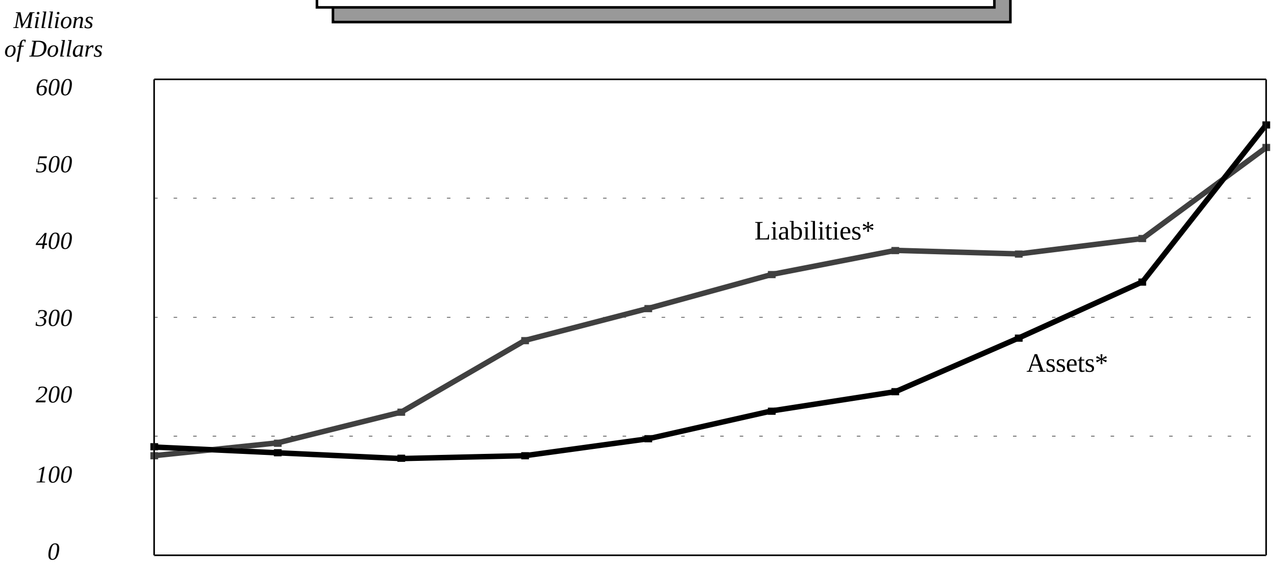
Premium Income
North Dakota Workers Compensation



SOURCE: North Dakota Workers Compensation Bureau.

Workers Compensation Fund Status

Fiscal Years 1988 - 1997



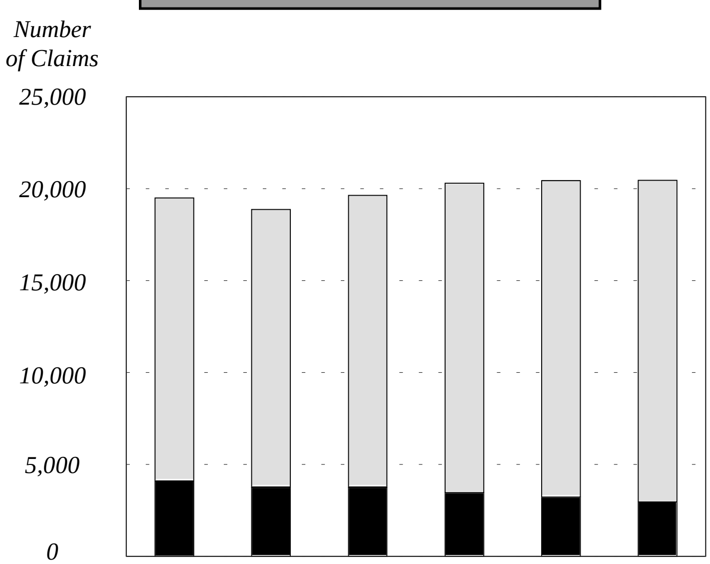
Fiscal Year	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Assets	182.0	172.4	162.6	167.4	195.9	242.6	275.2	365.3	459.7	723.6
Liabilities	167.5	188.7	240.7	360.9	414.9	472.0	512.2	506.5	532.4	685.5

*Liabilities are estimated expenditures on the lifetime of every claim. Assets are the actual current status of premiums, investments and other assets.

SOURCE: North Dakota Workers Compensation Bureau.

Number of Claims Filed

Fiscal Years 1992-1997



Fiscal Year	1992	1993	1994	1995	1996	1997
Medical Only	15,427	15,119	15,883	16,843	17,210	17,482
Wage-Loss	4,068	3,744	3,745	3,459	3,218	2,966

SOURCE: North Dakota Workers Compensation Bureau.

Claims by Rate Class*

Fiscal Year 1996

Hospitals	1,509
Foundries -- Imp. and/or Equip.	1,368
Restaurants & Lounges	1,349
Auto & Implement Dealers	1,274
Building Construction	1,047
Nursing Homes	1,043
Trucking and Hauling	774
Street & Road Construction	686
Stores - Retail	523
Building Custodians and Janitorial Services	522

* These ten classes accounted for 49.5% of all claims filed during fiscal year 1997.

SOURCE: North Dakota Workers Compensation Bureau.

Workers' Compensation Premium Rate Per $100 of Payroll

Rank	State	Index Rate
1	Hawaii	5.75
2	Louisiana	5.47
3	Florida	5.26
4	New York	4.90
5	Rhode Island	4.81
6	Montana	4.71
7	Oklahoma	4.65
8	Connecticut	4.64
9	Pennsylvania	4.37
10	Texas	4.19
11	New Hampshire	4.13
12	Ohio	4.12
13	California	4.11
14	Georgia	4.04
15	Minnesota	4.03
16	Nevada	3.96
17	Maine	3.91
18	District of Columbia	3.90
19	Illinois	3.77
20	Kentucky	3.77
21	Massachusetts	3.71
22	Alabama	3.64
23	Vermont	3.60
24	Tennessee	3.59
25	New Mexico	3.55
26	Delaware	3.54
27	Missouri	3.45
28	Alaska	3.41
29	Arizona	3.38
30	Colorado	3.34
31	Mississippi	3.30
32	South Dakota	3.20
33	New Jersey	3.20
34	Oregon	3.15
35	Michigan	3.05
36	North Carolina	3.05
37	Arkansas	3.04
38	Idaho	3.00
39	West Virginia	2.91
40	Wyoming	2.85
41	Utah	2.64
42	Kansas	2.64
43	Washington	2.55
44	South Carolina	2.38
45	NORTH DAKOTA	2.34
46	Wisconsin	2.34
47	Maryland	2.23
48	Iowa	2.17
49	Nebraska	2.04
50	Virginia	1.91
51	Indiana	1.71

SOURCE: Research and Analysis Section, Oregon Department of Consumer and Business Services, December 1996.